

# New Opportunities For Older Workers



A Statement by the Research and Policy Committee of the Committee for Economic Development



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# New Opportunities For Older Workers

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## RESPONSIBILITY FOR CED STATEMENTS ON NATIONAL POLICY

The Committee for Economic Development is an independent research and policy organization of some 250 business leaders and educators. CED is nonprofit, nonpartisan, and nonpolitical. Its purpose is to propose policies that bring about steady economic growth at high employment and reasonably stable prices, increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.

All CED policy recommendations must have the approval of trustees on the Research and Policy Committee. This committee is directed under the bylaws, which emphasize that "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group." The committee is aided by a Research Advisory Board of leading social scientists and by a small permanent professional staff.

The Research and Policy Committee does not attempt to pass judgment on any pending

specific legislative proposals; its purpose is to urge careful consideration of the objectives set forth in this statement and of the best means of accomplishing those objectives.

Each statement is preceded by extensive discussions, meetings, and exchange of memoranda. The research is undertaken by a subcommittee, assisted by advisors chosen for their competence in the field under study.

The full Research and Policy Committee participates in the drafting of recommendations. Likewise, the trustees on the drafting subcommittee vote to approve or disapprove a policy statement, and they share with the Research and Policy Committee the privilege of submitting individual comments for publication.

*Except for the members of the Research and Policy Committee and the responsible subcommittee, the recommendations presented herein are not necessarily endorsed by other trustees or by the advisors, contributors, staff members, or others associated with CED.*

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†Disapproved publication of this statement. See page 56.

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## Purpose of This Statement

As this report goes to press, U.S. unemployment is the lowest in several decades. The sustained economic expansion of the 1990's has created extremely tight labor markets in many industries and regions across the country. Increasingly scarce labor has forced employers to be more creative in finding new workers and keeping those they have. Older workers have benefited from these circumstances. But these benefits may prove to be short-lived, given scant evidence that employers have abandoned entrenched corporate policies that encourage retirement rather than work for aging employees.

This report is about the role that older workers should play in our *future* work force, when the retirement of the baby boomers will make tight labor markets commonplace. CED believes that this unprecedented demographic shift, which will begin within a decade, calls for fundamental rethinking about the work force of the future. We have confidence in the private sector's capacity to adjust to changing labor market circumstances. But we are concerned that these adjustments may be too slow in coming, leading to unnecessary and heavy costs along the way. For this reason, we offer an agenda for employers, public policymakers, and older workers themselves to ensure that tomorrow's older Americans have the opportunity to be active and productive members of the work force.

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### CED'S INITIATIVE ON THE AMERICAN WORK FORCE

*New Opportunities for Older Workers* is the third in a series of CED initiatives on the American work force, which includes *American Workers*

and *Economic Change* (1996) and *The Employer's Role in Linking School and Work* (1998). This series adheres to the principle of increasing prosperity for all Americans by improving work force productivity. In these three reports, we have brought this principle to bear on each stage of the work lifecycle, from young entrants in the work force to those approaching retirement. Future prosperity ultimately depends on the productivity of all workers, young and old.

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### ACKNOWLEDGMENTS

I would like to thank the dedicated group of CED Trustees, advisors, and guests who served on the subcommittee that prepared this report (see page viii). Very special thanks go to the Subcommittee's co-chairs, Donald R. Caldwell, CEO of Cross Atlantic Capital Partners, and CED Chairman and retired Executive Vice President of GE Frank P. Doyle. Both guided the project with great skill and insight. Frank Doyle has served as chairman for each of the projects in the American Work Force series and we are particularly indebted to him for the wisdom and leadership he has brought to the series. We are also grateful to Project Director Scott Morris for the intellectual rigor he brought to this effort and to Research Associates Seth Turoff and Monica Burrows.

We are grateful to the GE Fund for its support of this project.

Josh S. Weston, *Chairman*  
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Automatic Data Processing, Inc.

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# Executive Summary

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America is getting older – a simple observation with far-reaching implications. By now, the first wave of baby boomers has received invitations to join AARP.\* While the boomers themselves may choose to ignore those invitations for a few more years, the challenges posed by an aging society cannot wait that long. As today's workers evaluate their own retirement security, and as policymakers and business leaders assess the viability of the nation's aging-related programs and policies, they must recognize the need for significant changes in attitudes and practices.

Work will be central to this process of change. During this century, retirement has become increasingly important in the lives of most Americans, as reflected in their declining average age of withdrawal from the work force. Today, retiring with many years of life remaining is regarded as a just reward for a working life. In contrast, life after work was not something to look forward to in earlier eras. It was associated with severe economic insecurity, and often seen as a precursor to death. But the past half-century has seen sustained growth in the U.S. economy, the growth of public and private retirement systems, improvements in the health of older individuals, and increases in life expectancy. As a result, Americans now measure retirement in decades rather than years.

However, as the baby boom generation grows older, it is doubtful that ever-longer retirement will continue to be beneficial and affordable for individuals or the nation. CED

strongly believes that additional years of work in some form — not necessarily full-time, career employment — will be increasingly desirable for a growing number of older Americans and for our society.

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## THE ECONOMIC IMPERATIVE

The aging of the American work force will have major effects on our economy. Labor force growth will slow dramatically as the baby boom generation retires. Fewer workers relative to non-workers imply lower national saving and investment. As a result, the growth of productivity and our standard of living will suffer. One prominent observer highlights the economic implications of what he calls the “gray dawn,” arguing that aging populations will become “the transcendent political and economic issue of the twenty-first century.”<sup>1</sup>

Aging lies at the heart of two of the most difficult policy challenges we face today: reforming Social Security and Medicare. Reform debates already have been rancorous, pitting older and younger generations against one another. These are not false divisions; Social Security and health care benefits for retirees require tax revenues from younger, working Americans. With fewer workers relative to retirees, the burden placed on younger generations will grow. Extending work lives would help reduce this burden.

However, the work “solution” must be kept in perspective. An aging America will present considerable economic and social challenges. Longer work lives will not solve all of these problems — but they will help to alleviate many of them. And unlike the reform of Social Secu-

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\* The baby boom generation is defined as those born between 1946 and 1964.

rity and Medicare, which will necessarily produce winners and losers, an effective pro-work agenda for older Americans can be a win-win for all parties involved — older workers, businesses, and government.

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## **REMOVING BARRIERS TO WORK FOR OLDER AMERICANS**

Our goal should be increased work opportunities and incentives for older Americans that meet the needs of these workers and their employers. Older Americans who want to work currently face numerous obstacles: pension plans that strongly discourage them from working, workplace attitudes and practices that hinder their employment, federal regulations that inhibit flexible work arrangements, and sometimes unrealistic expectations on the part of workers themselves.

Employer attitudes and policies must change if older workers are to remain in the work force longer. Businesses have heretofore demonstrated a preference for early retirement to make room for younger workers. But this preference is a relic from an era of labor surpluses; it will not be sustainable when labor becomes scarce. A stagnant labor supply will force many employers to rethink their attitudes toward older workers and reverse policies that inhibit their employment. It is in the nation's economic interest that businesses make these changes sooner rather than later. This report is, in part, a wake-up call to business (and others), urging them to avoid a future game of "catch up" and the considerable economic losses that will come with it.

This policy statement defines the challenges ahead of us — why encouraging work is important (Chapter 1), what stands in the way (Chapter 2), and how to overcome these barriers (Chapter 3). Reforms must encompass public and private sector policies. Our recommendations do not rely merely on goodwill or employer sacrifice. Rather, we strongly believe that

changes in employer practices are as much a matter of self-interest as national interest. Older workers are a neglected but valuable resource in today's economy and will be even more valuable in the future. It is time for employers, policymakers, and older workers themselves to recognize this fact and act on it.

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## **MAJOR FINDINGS**

1. Americans are retiring earlier and living longer, healthier lives. As a result, they spend more time in retirement than ever before. In 1965, a typical male worker could expect to spend 13 years in retirement; today, he will spend 18 years. For working women the retirement span has increased from 16 years to more than 20.
2. The work force is aging. The disproportion between the retired baby boomers and workers supporting them will be unprecedented. In 1950, there were seven working-age persons for every person age 65 and older in the United States; by 2030, there will be fewer than three.
3. These two trends have tremendous economic implications. In coming decades, employers will face tight labor markets as fewer new workers enter the labor force. Economic growth will be reduced by lower national saving, due in particular to the exploding costs of our old-age entitlement programs.
4. Encouraging older Americans to work longer and facilitating longer work lives will alleviate this economic burden. Just as important, it will expand options for the growing number of workers who are not ready to retire at today's average retirement age of 62.
5. Older Americans currently face barriers to work on several fronts, including financial disincentives to work, workplace discrimination, and inadequate training. Ever-

younger retirement ages have been, in part, a reflection of these barriers. Older workers' experiences in the job market indicate problems as well; unemployment becomes more persistent as workers age, and job opportunities are often limited. Very few older workers have the option to scale back employment in a long-held, career job (i.e., "phased retirement").

6. Financial considerations often strongly discourage work. Many private pensions penalize work after some age, frequently as low as 55. Work after this age creates an implicit "tax" (often exceeding 50 percent) due to the decline in value of lifetime pension benefits. Similarly, some Social Security provisions — such as earnings limits for beneficiaries — create disincentives to work.
7. Employers' willingness to hire and retain older workers depends, in part, on the availability of labor. As growth in the labor supply slows, employers will look to non-traditional sources, including older persons, to alleviate shortages.
8. Employers' willingness to employ older workers also depends on the workers' productivity and cost. There are, in fact, no discernible differences between the intrinsic abilities (measured as physical and mental ability and capacity to learn) of most older workers and those of their younger counterparts for most jobs today. Many older workers offer distinct advantages in terms of experience, company loyalty, and job flexibility.
9. However, productivity also depends on skill levels, and older workers often fail to maintain and upgrade their skills. Older employees can also cost more as a result of practices related to earnings, health insurance, and pensions. Government regulation of employee benefits also imposes costs and may discourage the employment of older workers.
10. Some older workers face discrimination in the work place and job market. Older workers who believe they are likely to face discrimination are less inclined to remain in the work force.

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## SUMMARY OF RECOMMENDATIONS

Our "pro-work" agenda for employers, policymakers, and older workers includes detailed recommendations in six areas (see Chapter 3):

### 1. Getting the Financial Incentives Right

- As a means of retaining valued older employees, CED encourages employers to reassess their pension offerings and consider changes that would make them neutral between work and retirement.
- Major changes in public policies necessary to encourage longer work lives include:
  - eliminating the Social Security earnings test,
  - increasing Social Security's normal and early retirement eligibility ages, and
  - eliminating the employer first-payer provision in Medicare.
- We call on employers, employer associations, government, unions, and seniors' groups to educate workers about financial planning for retirement. Many workers lack a clear understanding of the financial resources required for a 20- or 30-year retirement. With a better understanding of their retirement needs, these workers would likely avoid the early retirement trap.

## **2. Replacing Stereotypes about Older Workers**

- CED urges employers to address age discrimination in the workplace and hiring practices through training sessions and workshops, following the model of race and gender-oriented initiatives. As a matter of self-interest, employers should abandon stereotypes about older workers in favor of honest assessments of value.

## **3. The Training Imperative**

- Older workers themselves have the primary responsibility to acquire and maintain their own skills. However, employers who offer training should recognize the value of training their older workers and ensure equal access to training for them.
- We urge higher education and other training institutions to recognize the need for work-oriented learning among older Americans and expand their offerings to this largely untapped customer market.

## **4. Rethinking the Organization of Work**

- CED calls on companies to explore innovative ways to reorganize work for long-tenure employees in order to avoid career plateaus.
- We believe that phased retirement is a promising, but vastly underutilized means of extending work lives. Successful implementation of phased retirement may require a change in company pension and benefit rules and changes to federal regulations governing employee benefits.

## **5. Getting Older Workers into New Jobs**

- Better opportunities for older job seekers are required. To identify and encourage older applicants, CED believes that employers should revise their recruiting practices with older candidates in mind by identifying promising recruiting markets, orienting recruiting material toward older candidates, and partnering with seniors' groups to advertise positions.
- Older workers looking for new employment should update their job search skills and recognize the increasing importance of computer-based job searches.
- Federal law governing employee benefits should be amended to allow greater flexibility in hiring older workers for contingent and part-time work. Older workers who want to work in flexible arrangements should be permitted to opt out of traditional benefit packages.
- CED calls on employers to consider greater use of "cafeteria"-type flexible benefit packages to facilitate the hiring of older workers in flexible work arrangements.

## **6. A Strong and Flexible Safety Net**

- Social Security Disability Insurance (DI) should be reformed to promote work by DI recipients, many of whom are older Americans, while maintaining an adequate safety net of benefits. Our recommended reforms to DI illustrate how public safety net programs can serve their intended populations while also promoting work.

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# Chapter 1.

## Promoting Longer Work Lives: Why It Matters

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### INTRODUCTION

CED believes that encouraging longer work lives and creating work opportunities for older Americans will become increasingly important in the next three decades. In this chapter we examine aging and retirement trends — how they are expected to change and how they will impact the economy. We also examine potential labor shortages and how employers are likely to respond. Finally, we look at aging and work from the individual's perspective, highlighting evidence that more older Americans will want to work in the future. While work is often a matter of economic need, it also can contribute to the quality of life for many older workers.

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### THE AGING OF AMERICA

Since 1950, the share of the U.S. population age 65 or older has increased from 8 to 12 percent (see Figure 1). By 2030, when the last baby boomers turn age 66, an unprecedented 20 percent of the population will be over 65.

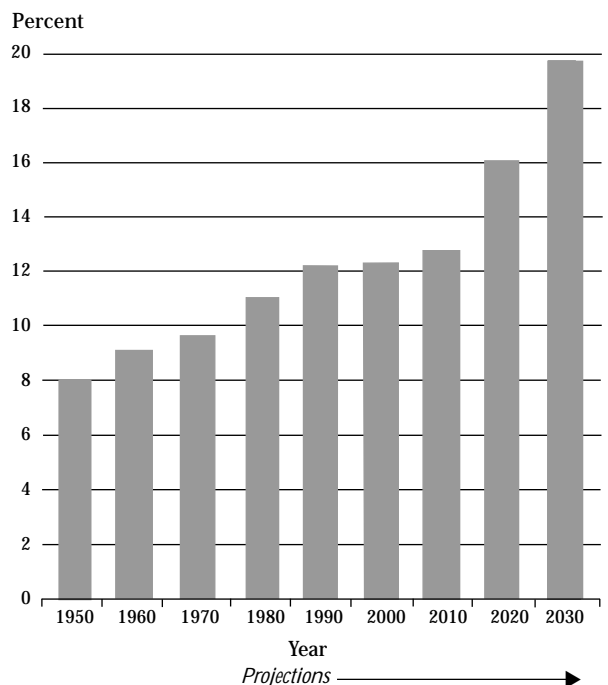
These demographic trends are the result of a decline in fertility rates and a steady increase in life expectancy. In 1960, the baby boom peaked at an average total fertility rate of 3.61 births per woman. Fertility is projected at just 1.9 children per woman by 2023.<sup>2</sup>

Life expectancy measured from birth has increased nearly 20 percent since 1940 due, in part, to a decline in the mortality rates of new-

borns and infants.<sup>3</sup> Life expectancy measured at age 65 has increased even more. For men, life expectancy at 65 increased from 12 years in 1940 to 16 years today. For women, it increased from 13 to 19 years. These statistics reflect

**Figure 1**

**The Percent of the U.S. Population 65 and Over**



SOURCE: 1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund.

substantial health improvements due to medical technologies and healthier lifestyles deriving from better diet, less physically demanding work, and better living conditions.

By 2030, official projections indicate that life expectancy at age 65 will be 17 years for men and 20 years for women. However, evidence on the health of today's population suggests that these estimates may be too conservative. Some experts estimate that average life expectancy could increase 10 years by 2070, or twice as fast as official projections.<sup>4</sup>

Longer life expectancies and fewer births translate into a grayer America. Today Florida is the nation's grayest state, with nearly one-fifth of its population age 65 or over.<sup>5</sup> By 2025, Florida will be just one of 39 states that surpass this threshold (see Figure 2).<sup>6</sup> And while only four states had an elderly population of 15 percent or more in the 1990's, all but two (California and Alaska) will surpass the 15 percent mark by 2025.

## RETIREMENT TRENDS

Older men leaving the work force 30 years ago could expect to spend 13 years in retirement on average. Men exiting the work force today can anticipate 18 years in retirement. Longer life spans have contributed to ever-longer retirements, but equally important has been an ever-earlier retirement age. Today's average retirement age for men is 62, compared with 65 only 30 years ago.\* Furthermore, one-quarter of today's older male workers leave the work force by age 58.<sup>7</sup> Figure 3, page 8, illustrates the overall decline in work force participation for older men since 1950.

As Figure 3 also indicates, the experience of older women in the work force has been markedly different. More women ages 55-64 are working today than in earlier decades (50 percent in 1997 compared with less than 30

percent in 1950). After World War II, a growing number of women entered the work force for the first time, so that work participation for women of all ages (except for those over 65) steadily increased during the post-war era (see Figure 3).<sup>8</sup> Yet, retirement trends for *working* women are similar to those for working men. Average age of retirement for women has fallen from 65 in 1965 to just under 63 today.<sup>9</sup> Accounting for longer life spans, the number of years women spend in retirement has increased from about 16 to over 20.

## Why Are Americans Retiring Earlier?

The decline in the average age of retirement reflects increasing wealth and incomes.<sup>10</sup> The average net worth of American families nearly doubled in real terms between 1962 and 1995, increasing from \$114,000 to \$206,000.<sup>11</sup> Median real household income for married couples over age 65 rose by an extraordinary 57 percent between 1969 and 1996, while the incomes of all American households increased by only 6 percent.<sup>12</sup> As wealth rose over time, workers traded some income for more leisure time. In earlier eras, there was little room for such trade-offs; most workers remained in the work force until very late in life out of economic necessity.

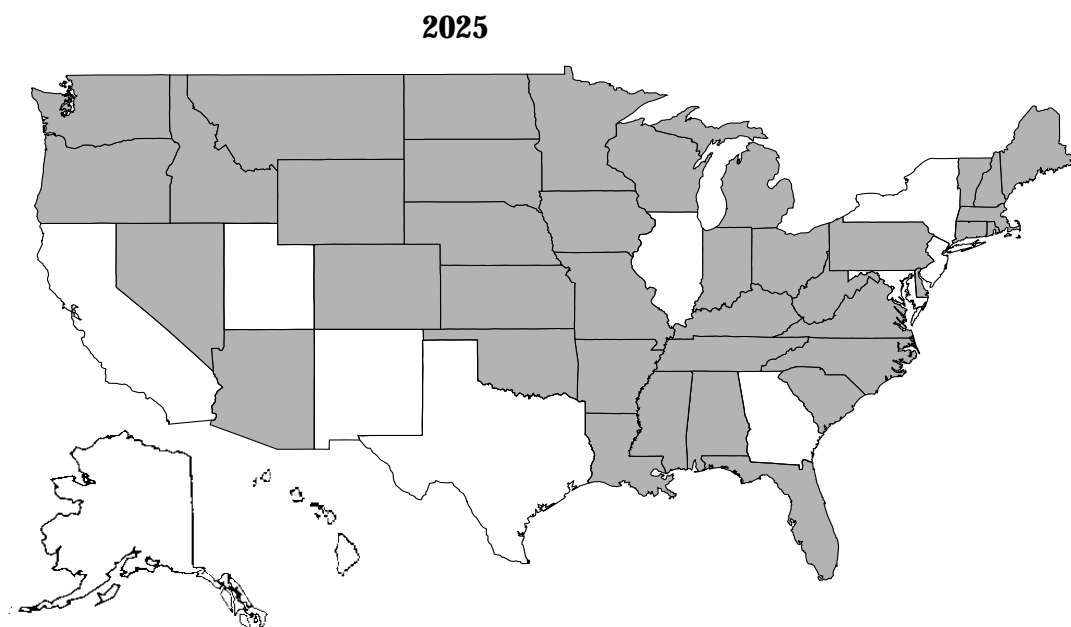
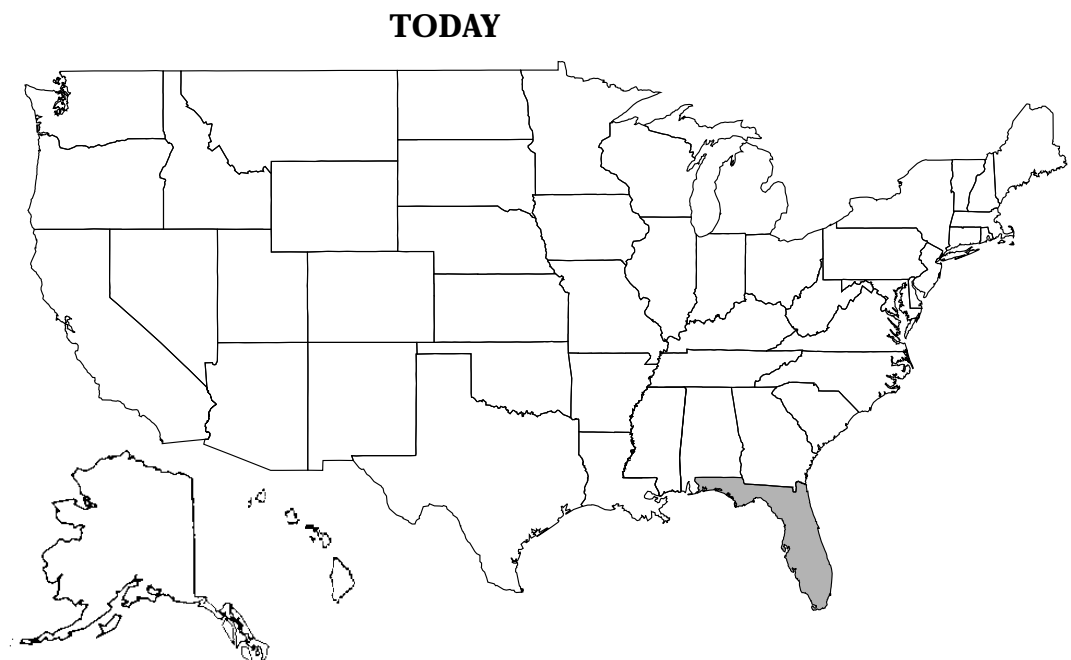
The "wealth effect" on retirement is not limited to the wealthy. People at all income levels have been able to afford longer retirements, due in part to the support provided by Social Security and the health security provided by Medicare and Medicaid. The combined effects of public support programs and personal wealth are reflected in the dramatic decline in poverty rates among the elderly. In 1966, 28 percent of people over age 65 lived in poverty (more than twice the rate for the working age population), compared with just 10 percent in 1997 (slightly lower than the rate for the population 18 to 64 years old — see Figure 4, page 8).<sup>13</sup>

Rising incomes do not explain the entire trend toward early retirement. A host of retire-

\* As measured by average age of exit from the labor force of age cohorts. See Gendell, Murray, "Trends in Retirement Age in Four Countries, 1965-1995," *Monthly Labor Review*, August 1998.

**Figure 2**

**39 Floridas by 2025**



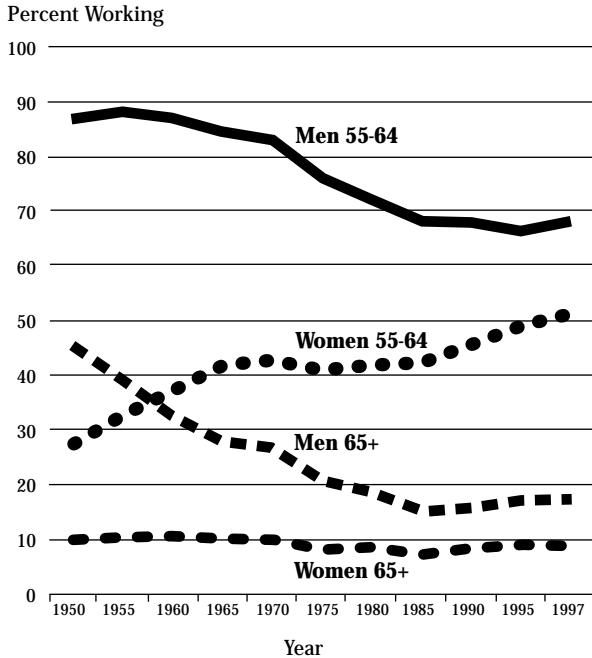
■ States with at least 18 percent of the population age 65 or over.

SOURCE: U.S. Bureau of the Census, December 1996



**Figure 3**

### Labor Force Participation Rates



NOTE: Labor force is defined as those employed full-time, part-time, or actively seeking employment.

SOURCE: Bureau of Labor Statistics, 1998.

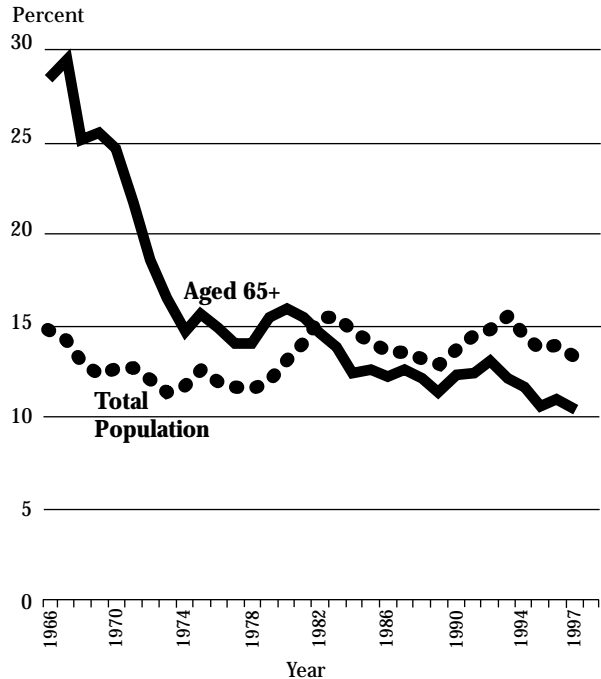
ment incentives, public and private, have been constructed in policy and practice. Those contained in Social Security and many private pension plans have deliberately penalized work after a certain age in order to encourage retirement. Early retirement may also have been driven, in part, by a decline in demand for older workers, particularly those with few skills.<sup>14</sup> We address these issues in the next chapter.

### Is the Trend Toward Ever-Earlier Retirement Over?

The steady decline in men's retirement ages has abated in recent years. As Figure 3 shows, labor force participation rates for men have not changed significantly for any group above age 55 since 1985, and in some cases they have increased slightly.<sup>15</sup> For women, labor force participation has accelerated in recent years, faster

**Figure 4**

### Percent of Population Aged 65+ Living in Poverty



SOURCE: U.S. Census Bureau, Current Population Reports, *Poverty in the United States: 1997*.

than the trends before 1985 would have predicted (Figure 3). Taken together, participation rates for older men and women since 1985 suggest a leveling off in retirement rates, if not a reversal.

As we discuss in the next chapter, pro-work changes to Social Security, the rise of defined contribution pension plans in the private sector, and the end of mandatory retirement have all helped to keep older workers in the labor force. These changes are good news for older Americans who want to continue to work, and they suggest that public and private policies are beginning to move in the right direction.

Macroeconomic factors may also help to explain the leveling off in early retirement. The growth in jobs and declining unemployment over the past decade created more demand for all workers, including older ones.

When economic conditions are not so strong — when unemployment is high and the demand for labor is weak — older workers are more likely to retire.

### **“Cliff” Versus Gradual Retirement**

Another important aspect of retirement is the nature of work force withdrawal. The traditional notion of retirement had the older worker exiting the work force suddenly, moving from a full-time, career job to no work at all (i.e., “cliff” retirement). But over time, a more gradual form of retirement has become the reality for many older Americans.

By one estimate, one-third of older workers leave their long-held career jobs in favor of new jobs that serve as a bridge to full retirement.<sup>16</sup> These “bridge jobs” are normally part-time or short-tenure positions, frequently in different occupations, that mark a departure from career employment and signal a transition toward full retirement.

Surveys of older workers reveal a preference for gradual retirement.<sup>17</sup> Post-career employment often offers a less demanding and more desirable option to older workers who want to keep working. This is a smooth and rewarding process for many older workers, but not for all. Those who voluntarily leave their career jobs with the dream of opening a small business or working part time are sometimes disappointed by the realities of long hours, insufficient work, or too little income. Most vulnerable are those who are in the job market late in their working lives due to involuntary job loss. In the next chapter we discuss the problems associated with older workers in the job market.

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## **ECONOMIC IMPACT OF AN AGING SOCIETY**

The combination of an aging population with earlier retirement has serious implications for our future living standards. Improvements in living standards ultimately depend upon economic productivity — the output obtained from

each hour of labor. The effects of aging and early retirement on productivity growth, then, are critical.

The link between aging, early retirement, and productivity is national saving and investment. A key determinant of productivity growth is the level of new investment in plants and equipment. Investment, in turn, depends in large measure on funds made available through saving. “National saving” is simply the combination of *public* saving (positive when federal and state budgets are in surplus and negative when in deficit) and *private* saving. Both forms of saving will be affected by the aging of America.

First, as the baby boomers move from saving *for* retirement to drawing down their assets *in* retirement, *private* saving will decline as private pension funds and other private financial assets shrink.

But aging will also have an impact on *public* saving. As Figure 5 on page 10 shows, the old age dependency ratio (the ratio of people 65+ to those ages 20-64) will increase sharply in the coming decades. In 1950, there were seven working-age persons for every elderly person in the United States; by 2030, there will be only three.\* This rise in the dependency ratio will severely weaken the Federal budget position. On the expenditure side, the growth of Social Security and Medicare will result in dramatic increases in federal spending (see Figure 6, page 10). On the revenue side, taxes from wages and salaries will stagnate. The resulting federal budget deficits will reduce national saving and investment, hindering the growth of the nation’s capital stock and productivity growth.\*\*

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\* Mediating this growing burden is a broader view of the dependency ratio, which includes those under age 20 in the “dependent” status. Because fertility rates are falling, the youth dependency ratio will decrease. Yet, the economic burden created by the elderly is larger than that of youth dependency. As a result, it is not likely that a decline in economic dependency of youth will offset increases in old age dependency. (See CBO, *Long-Term Budgetary Pressures and Policy Options*, May 1998, p. 6).

\*\* We would, however, expect to see some off-setting increase in private saving as a result of higher federal budget deficits.

The impact of low national saving on new investment has been moderated in recent years by foreign investment in the United States, but capital inflows from Europe and Japan are less assured in the future. These countries face aging pressures even more severe than our own, so it is unlikely they will have the excess saving required to pour investment dollars into the United States.<sup>18</sup> (See Box “Aging Trends in Other Countries”.)

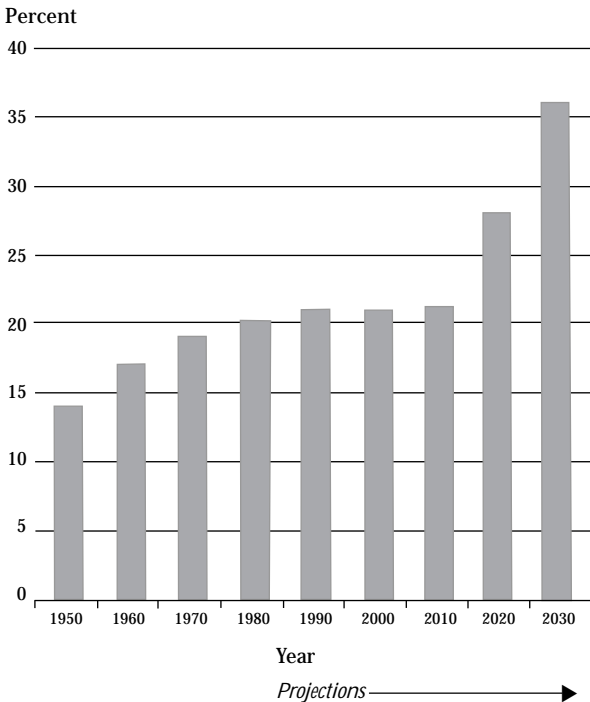
The potential bad news does not stop there. The *quality* of labor is also critical to improvements in productivity. As older workers retire, the economy loses valuable human capital in the form of work experience. Historically, this loss has been more than offset by a younger work force that is better educated than the

retiring workers — more formal education has made up for less work experience in the work force. For example, 57 percent of 25-to-29 year olds have at least some college education, compared with just 38 percent for those 60 to 64, and just 28 percent for those over 75.<sup>19</sup>

Unfortunately, current problems in America’s schools suggest that the steady improvements in the human capital of young workers needed to meet the ever-higher skill requirements of the economy cannot be taken as a given. Today’s shortcomings in education point to a future where the loss of experienced older workers to retirement may not be adequately offset by better-educated young workers.

**Figure 5**

### “Old Age” Dependency Ratio

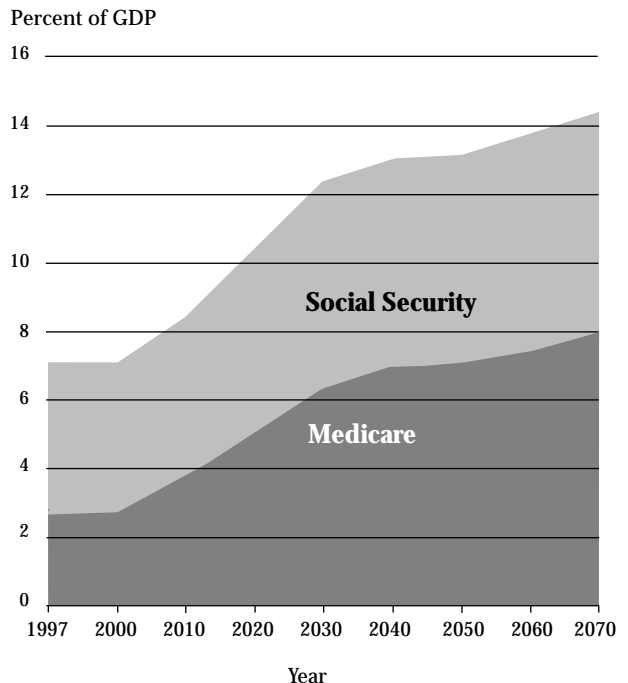


NOTE: Old Age Dependency Ratio is defined as the ratio of those 65 and older to those ages 20 to 64.

SOURCE: 1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund.

**Figure 6**

### Projected Growth in Spending for Social Security and Medicare as a Percent of GDP



SOURCE: CBO, *Long-Term Budgetary Pressures and Policy Options*, May 1998.

## AGING TRENDS IN OTHER COUNTRIES

The aging of America is by no means unique. In fact, some countries face aging trends more dramatic than our own, while others will experience older populations much sooner than we do. Among the OECD countries, Germany will see the most dramatic growth in its elderly population. By 2030, 28 percent of the German population will be over age 65, compared with 20 percent in the United States in that year.<sup>20</sup> In Japan, the aging of the population is occurring more rapidly than in the United States. Japan will have the same share of its population over age 65 in 2010 that the United States will have in 2030.

As in the United States, rapid growth in the proportion of retirees in other countries is the result of longer life expectancies, a decades-long trend toward early retirement, and declining fertility rates. Across OECD countries, life expectancy is projected to increase 4 to 5 years by 2030 (excluding Mexico and Turkey).<sup>21</sup> While retirement patterns differ across countries, there has been a steady downward pull on the

average age of retirement for the past several decades. While trends in the United States have leveled off in the past two decades, the movement toward earlier retirement has continued in most other OECD countries.<sup>22</sup> Nearly half of all OECD countries now have average retirement ages younger than 62.

The old age dependency ratio (the ratio of those ages 65 and older to those ages 20 to 64) in the OECD region will reach 38 percent by 2030, from 19 percent in 1990. Germany's projections are even more dramatic: in 2030, the population aged 65 and over will represent 49 percent of the working-age population.<sup>23</sup>

The burden of these dependency ratios will lead to a decline in total saving in OECD countries. As a result, OECD foreign investment and net foreign assets will decline.<sup>24</sup> Other OECD countries have been the leading sources of foreign investment in the U.S. economy. The United States may not be able to look abroad for remedies to its saving shortfalls in the future as it has over the past few decades.

## Projecting the Economic Impact of Aging

It is impossible to know precisely how aging will affect the economy 30 years hence, given the uncertainty regarding fertility rates, life expectancy, and the evolution of the economy. Nonetheless, projections are useful in suggesting the direction of change and measures that might be taken today to affect it.

The available projections suggest that while the U.S. economy will continue to grow and per capita incomes will continue to rise, the rate of economic growth will fall significantly relative to historical experience due to the impact of aging. The OECD estimates that, by 2050, the rising old age dependency ratio in the United States will reduce living standards (measured as per capita income) by 10 percent

compared with those that would be produced if today's dependency ratio were maintained.<sup>25</sup>

That study also attempts to measure the impact of a change in the labor force participation rate of older Americans. A gradual increase of 10 percent in the participation rate of older workers would raise GDP growth by 1/4 percent per annum between 2000 and 2040, producing living standards seven percent higher than under the base scenario.

As these admittedly rough estimates indicate, work can play an important role in alleviating significant strains on the U.S. economy. Increasing the work participation rate of older Americans would add to the productivity of the work force, ease the burden on public resources through higher tax revenues, and increase private saving due to higher personal income and wealth.

## EMPLOYERS WILL WANT MORE OLDER WORKERS

There is a temptation to associate much slower labor force growth with a dramatic and inevitable economy-wide labor shortage, with jobs begging for workers and businesses impaired. There have been brief glimpses of this possibility in various sectors of the economy over the years. Most recently, the reported shortage of computer workers has been highlighted in the media.<sup>\*</sup> Fortunately, however, employers have proven to be highly adaptable to changes in the labor market, and will continue to adapt in the future. However, the approaching demographic shift is unprecedented, and it is unclear how, or how soon, employers will respond. In principle, they can respond in several ways to a tight labor market:

1. by employing more capital as a substitute for labor,
2. by seeking new sources of labor within the working age population in the U.S. or abroad, or
3. by redefining the working age population to include older Americans.

The importance of the third strategy will depend in part on the viability of the other two.

Capital investment itself will be affected by the aging of America. If national saving declines as a result of aging, capital investment will fall and the price of capital will rise. As a result, capital will become less attractive as a substitute for labor.

Firms could also seek new sources of labor within the existing working age population. This would include immigrants and others who currently choose not to work (for example, non-working spouses). Further liberalization of

immigration policies would provide some boost for employers but would only marginally alleviate the shortage given political constraints on immigration policy.<sup>\*</sup> Under a "high immigration" assumption, annual net immigration in the United States will be slightly above 1 million over the next 30 years. Yet, to maintain today's ratio of workers to the elderly, the working age population would have to increase by 133 million.<sup>\*\*</sup> Immigration, therefore, is likely to meet only a small portion of the labor demand in the coming decades.<sup>26</sup>

Businesses can also seek new sources of labor by locating production abroad. Many companies already "export jobs." But the decision to move production abroad is complex and depends on many factors, including foreign and domestic skill levels, wages, the location of consumer markets, and trends in international capital markets. Like immigration, exporting jobs is likely to play a role in meeting labor demand in the future, but will not meet all of the demand created by a tightened labor supply.

In order to induce more non-working spouses to work, employers would have to increase compensation, in the form of higher wages or expanded benefits (child care subsidies, flex time, etc.). Again, the potential for increasing supply in this area is limited, particularly in light of the steady increase in the number of women entering the work force over time. There are limits to how much further their participation can grow.

Finally, and most important from this report's perspective, employers can adjust their

<sup>\*</sup> Some older worker advocates and economists have argued that the computer industry shortage is largely a false one, reflecting in part the industry's unwillingness to hire qualified older workers. See Lewis, Diane, "Software Job Glut Eludes Older Workers," *The Boston Globe*, June 15, 1998, p. A1; Alter, Jonathan, "Older Workers: Tired or Wired?" MSNBC Online News Service (<http://www.msnbc.com/news/172768.asp>).

<sup>\*</sup> Some employers currently experiencing labor shortages have gone to elaborate lengths to expand the pool of immigrant labor. They contract with consulting companies who bring foreigners in as "tourists" and put them to work as contract labor in semi-skilled jobs. It is hard to imagine that recruiting non-working older Americans to pursue the limited training necessary for these jobs would be any more costly or difficult than this type of practice. Stossel, Scott, "Uncontrolled Experiment," *The New Republic*, March 29, 1999.

<sup>\*\*</sup> Further, not all immigrants will be working age, or will remain working age for long. Data from the 1999 Annual Report of the OASDI Trustees, pp. 134 & 145.

own practices regarding older workers. Employers have used financial incentives effectively to encourage retirement; the same tools can be used to encourage work. But changes in attitudes and practices by employers will not come quickly or easily. It remains to be seen if employers will adjust practices in advance to *avoid* labor shortages, or if they will respond only after major shortages have occurred. Workers, businesses, and the economy will fare far better if we follow the former path. We therefore offer a “pro-older worker” strategy for employers and policymakers in Chapter 3.

## MORE OLDER AMERICANS WILL WANT TO WORK

While there is a strong public interest case to be made for increasing work among older workers, this does not address a more fundamental question: will older workers themselves want to work longer? Their preferences and choices will ultimately determine their role in tomorrow’s economy.

There is no typical older worker to whom we can address this question. It is likely, how-

ever, that an increasing number of workers will want to continue to work later in life, past today’s average retirement age of 62. The reasons will vary, from the need for additional earnings to the enjoyment of the social setting and self-esteem that work provides. A closer look at these reasons reveals a growing demand for work opportunities by tomorrow’s older workers.

## More Express a Willingness to Work

A recent survey of baby boomers revealed that over 70 percent expect to continue to work at least part-time “after retirement,” reflecting not only a strong interest in work but also the importance of post-career, or “bridge job” type employment.<sup>27</sup> Such high numbers contrast with much lower actual work participation rates for current and past retirees. Indeed, surveys of today’s retirees describe a more complex set of attitudes and experiences toward work than is reflected in the boomers’ responses.

A majority of retirees express no interest in work, and this preference increases with age (see Table 1). Nonetheless, some who indicate

**TABLE 1**

### Work Status and Work Attitudes of Older Americans

	Aged 55-64		Aged 65-74		Aged 75 or older		Total
	Number (millions)	%	Number (millions)	%	Number (millions)	%	Number (millions)
Working	10.8	51	3.0	16	0.5	4	14.3
Not working	10.4	49	15.1	84	12.6	96	38.1
Do not want to work	6.5	31	10.3	57	9.5	73	26.4
Not able to work	1.9	9	2.5	14	1.9	15	6.3
Willing and able to work	2.0	9	2.3	13	1.1	8	5.4
Total	21.2	100	18.1	100	13.1	100	52.4

SOURCE: Louis Harris and Associates, 1992.

no desire to work might respond differently given only modest changes in work incentives and opportunities. Further, there are reasons to expect that baby boomers will view work differently than do today's retirees: they are living longer, healthier lives; their jobs are less physically demanding; and they have not saved adequately to retire at younger ages.

Some retirees indicate a willingness to work but point to various obstacles to doing so, many related to employer demand.\* The combination of unmet demand for work among current retirees and a greater willingness to work among future retirees indicates a need for pro-work policies.

### More Will Want to Work for Economic Reasons

The most compelling evidence for a greater willingness to work among future older Americans is economic need. The boomers came of age during a period of tremendous economic prosperity. As a result, their expectations for financial security and well-being are considerably higher than that of their parents' generation. Yet, they have not saved at levels that will fulfill their expectations for retirement.

Personal saving rates are at historic lows (see Figure 7), and are far below rates in other countries. In 1998, personal saving was a meager .5 percent of disposable income in the United States.\*\* Much of household saving is designated as retirement saving; in fact, absent saving for retirement, U.S. personal saving

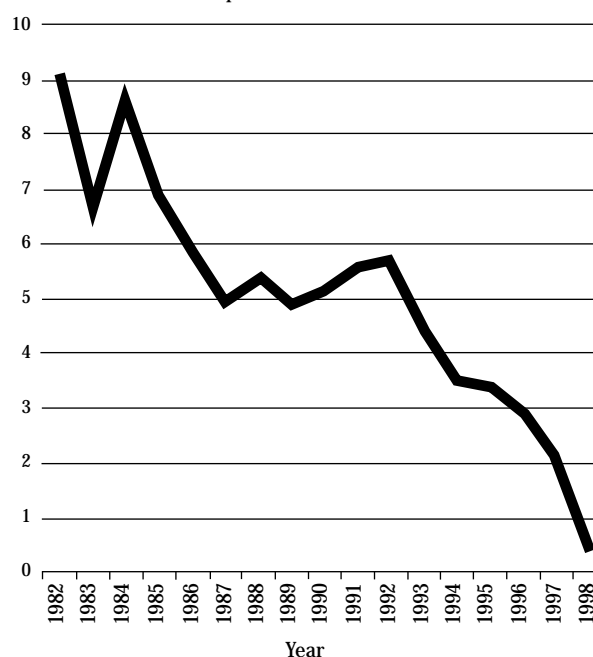
would be consistently below one percent in recent years.<sup>28</sup>

Although retirement saving accounts for a large share of total personal saving, it is quite inadequate for much of the population. Over one-third of 45-to-54 year olds and one-quarter of 55-to-64 year olds report that they have not set aside money for retirement on a regular basis.<sup>29</sup> In these same age groups, only one in four are very confident that they will have enough money to meet their retirement needs. Their concerns are not misplaced. By one measure of retirement saving patterns, the median American household approaching retirement, with ages in the mid-50's, would have to save nearly *one-quarter* of its income over the next decade to maintain its desired lifestyle in re-

**Figure 7**

### U.S. Personal Saving as a Percent of Disposable Income

Percent of Personal Disposable Income



SOURCE: Department of Commerce, *Personal Income and Outlays*: April, 1999.

\* See Table 1, "Willing and Able to Work" category. See also Chapter 2 for discussion of employer demand for older workers.

\*\*There is considerable dispute among economists about the accuracy of personal saving data in the Department of Commerce's National Income and Product Accounts. Specifically, many believe the sharp decline in the NIPA personal saving rate during the 1990's overstates any real decline. A recent examination of this issue suggests, for example, that the very high rates of wealth accumulation fueled by the stock market help to explain the official saving rate decline. If the dramatic increase in capital gains and resulting wealth accumulation is behind the decline in saving rates, then concern about household saving adequacy may be overstated. See Gale, William and John Sabelhaus, "Perspectives on the Household Saving Rate," *Brookings Papers on Economic Activity*, forthcoming.

tirement. Current rates of saving, of course, fall far short of this requirement.\*

Employer-provided pensions do not fill this savings gap for many Americans. Only half of the civilian labor force is now covered by a company pension plan, although as many as 65 percent will have some pension coverage over their lifetimes.<sup>30</sup> Pension coverage varies by employer size: nearly 80 percent of medium and large firms provide some type of pension, while only 42 percent of firms with fewer than 100 employees provide a pension plan.

\* "Adequate saving" estimate is based on recommendations by retirement planners. Expressed as a "replacement rate," savings adequacy would achieve a rate of 70 to 80 percent of pre-retirement income (before taxes). Mitchell, Olivia and James Moore, "Retirement Wealth Accumulation and Decumulation: New Developments and Outstanding Opportunities," The Wharton Financial Institutions Center, Working Paper 97-12, 1997.

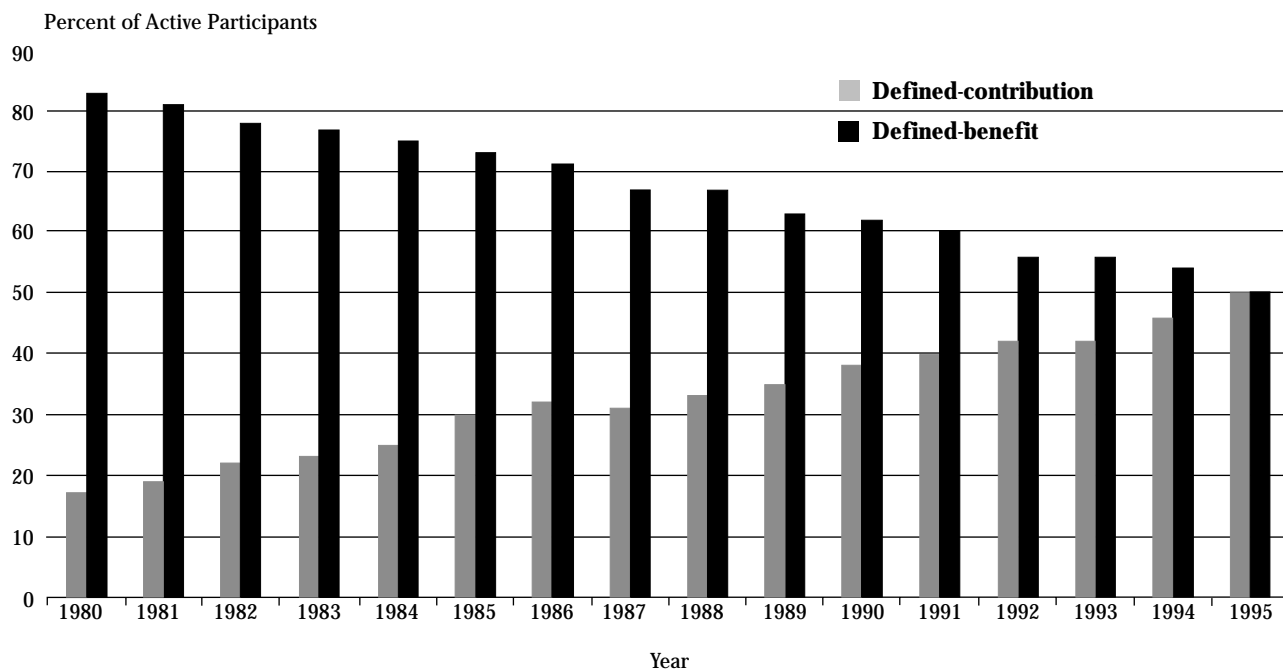
For workers covered by defined benefit pension plans, benefits are likely to erode as the period of retirement increases. Pension plans are generally not indexed for inflation, and *ad hoc* increases in benefit amounts for retirees are increasingly rare.<sup>31</sup>

Employers increasingly are introducing defined contribution pension plans (see Figure 8) rather than traditional defined benefit plans.\* The growth in defined contribution plans is likely to extend working lives in two ways. First, defined benefit plans often contain financial penalties for working beyond a certain age, while defined contribution plans contain no

\* A growing number of large employers are also converting their existing defined benefit plans to "cash balance" plans. Cash balance plans are technically a variant of traditional defined benefit plans, but are more similar to defined contribution plans in terms of accrual patterns and portability.

**Figure 8**

### Type of Primary Pension Plan



NOTE: 1995 is the most recent year for which primary plan data are available. More recent data on the absolute number of plans indicate that defined contribution plans continue to grow relative to defined benefit plans.

SOURCE: Department of Labor (Pension and Welfare Benefits Administration).



such penalties.<sup>32</sup> Second, because defined contribution plans are often voluntary and place more responsibility for retirement planning on the employee, many workers may not participate adequately. Some eligible workers choose not to participate, while many participants do not contribute the maximum allowable amounts to their plans.<sup>33</sup> Consequently, retirement saving may prove inadequate in the future for some workers, who will be required to work longer.\*

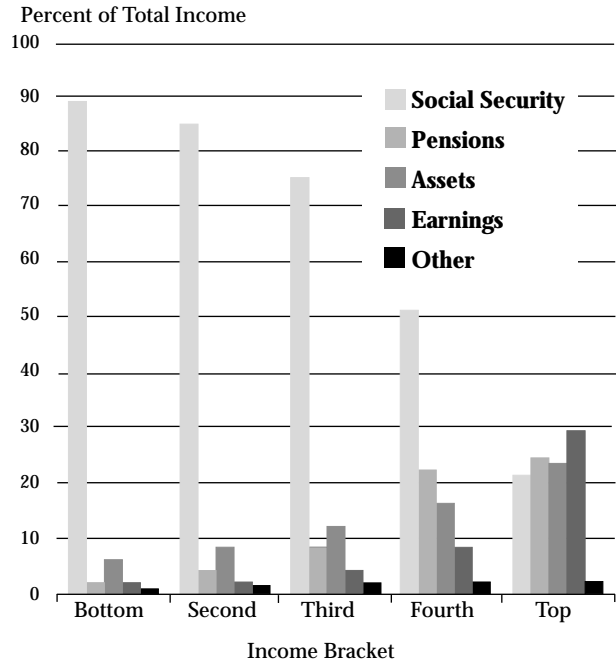
For 80 percent of the population, Social Security benefits constitute the primary source of income after age 65;<sup>34</sup> for the lower half of the income distribution, it is effectively the only source of income in retirement (see Figure 9). This high level of dependency, coupled with low levels of private saving among today's baby boomers, has clear implications for work among future older Americans. Any significant reform of the Social Security program to achieve solvency will almost certainly entail benefit cuts or delays for some or all future recipients. Indeed, as we note in the next chapter, some changes to the program have already been made in this direction. To maintain desired incomes in retirement, older Americans will have to save more during their working years or work later in life.

Finally, increased longevity may create financial strains late in life for many older Americans. Monthly benefits provided by Social Security and private pensions may prove inadequate for retirees who have depleted their savings early in retirement. This is a particular concern for those who take early retirement

\* On average, defined contribution plans may in fact increase retirement wealth, relative to defined benefit plans, even though they place more investment risk on the worker. For lower income workers, however, defined contribution plans may prove less adequate, because these workers tend to avoid riskier, more lucrative investments. Samwick, Andrew and Jonathan Skinner, "How Will Defined Contribution Pension Plans Affect Retirement Income," *NBER Working Paper No. 6645*, July 1998.

**Figure 9**

### Sources of Income in Retirement for Different Income Brackets



SOURCE: EBRI Databook on Employee Benefits, 1997.

benefits under Social Security; those who begin drawing Social Security benefits at age 62 receive a reduced monthly payment, relative to the "full" benefit at age 65 (see Chapter 2).<sup>\*</sup> The reduced benefit may be sufficient at age 62 when it is coupled with savings and part-time work. But by age 80, when work is not a likely option and savings have been depleted, some older Americans may face a financial crisis. For those who acquire late-life disabilities, the expense of long-term care greatly ex-

\* Retirement at 62 currently reduces a Social Security beneficiary's "Primary Insurance Amount" by 20 percent. When Social Security's "Normal Retirement Age" increases to 67, the reduction will be 30 percent. *Private correspondence with Social Security Administration staff.*

acerbates this situation.\* Poverty rates reveal the financial strains that can arise at older ages — seniors 75 and older are one-third more likely to live in poverty than those ages 65 to 74.<sup>35</sup> Late-life poverty is a particular concern for widowed women, whose wealth and incomes are lower on average than those for widowed men and non-widowed women.<sup>36</sup>

## More Will Be Able to Work

For most older Americans, work in the future may not be the same burden that it has been in the past. We are a healthier society today, and older Americans do not face as many health constraints as earlier generations did.<sup>37</sup> Also, our economy is moving away from physically demanding jobs and providing more opportunities for less strenuous work. In 1950, one-fifth of jobs were physically demanding in nature, compared with just over 7 percent today (see Figure 10). Finally, there has already been some movement toward more flexible work arrangements such as part-time and contingent employment.<sup>38</sup> While these work arrangements generally offer lower pay and less job security, they nevertheless are likely to be appealing to many older workers.

## Quality of Life

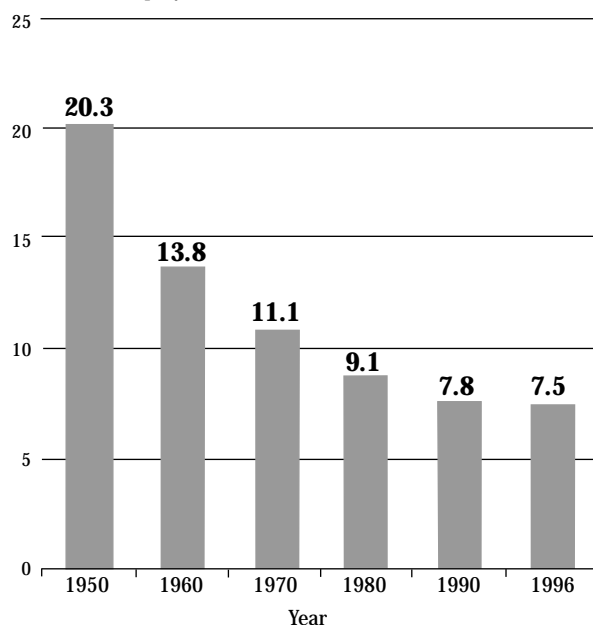
There are less tangible, though equally compelling, reasons why many older Americans want to keep working. Only in retirement do many older Americans realize that there was more to work than a paycheck. Indeed, work can have a

\* Given the role that Medicare and Medicaid play in financing long-term care, the costs associated with longevity will be borne not only by the individual, but by society as a whole. Despite this public subsidy, health expenses associated with disability late in life lead quickly to a depletion of personal financial resources. However, declines in the prevalence of late-life disabilities and an increase in utilization of private insurance for long-term care may alleviate this cost burden in the future. See Hagen, Stuart, "Projections of Expenditures for Long-term Care Services for the Elderly," *CBO Memorandum*, March 1999.

**Figure 10**

## Workers in Physically Demanding Jobs

Percent of Employed Workers



SOURCE: C. Eugene Steurele, Rich Johnson, and Chris Spiro, The Urban Institute, 1998. Based on data from the Dictionary of Occupational Titles (4th edition) and the Current Population Survey. Physically demanding jobs are defined as requiring frequent lifting and/or carrying of objects weighing over 25 lbs. Data points for 1950 and 1960 are taken from the U.S. Social Security Administration study *Increasing the Retirement Age: Effect on Older Workers in Physically Demanding Occupations or Ill Health*, 1986.

positive impact on quality of life, promoting better physical and mental well-being. Work provides an important social outlet, as well as a sense of accomplishment and responsibility. As Americans live longer, concerns about longer periods of isolation and social detachment become more pressing. Although many retirees remain engaged through volunteer work, family life, and other social outlets, some lack the stimulation in retirement that work provided.

While the quality of life is difficult to quantify, work appears to be an important factor in overall life satisfaction and general well being.<sup>39</sup> Remaining in or re-entering the work force is associated with better health, higher levels of morale, happiness, and life satisfaction for seniors.\* A nationally representative sample of elderly women indicated that those women who were employed enjoyed a significantly higher level of life satisfaction than those who were retirees or homemakers.<sup>40</sup> Finally, the psychological benefits of employment are not limited to higher-income workers. A study of low-income older workers indicates that work not only meets their economic needs, but also contributes to a sense of self-worth and maintains important social ties.<sup>41</sup>

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\* Causal relationships between work and health are difficult to establish, since those who are unhealthy tend to leave the work force.

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# Chapter 2.

## Barriers to Work for Older Americans

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### INTRODUCTION

A pro-work environment for older Americans will require the removal of some of the existing obstacles to work. Some of these are unambiguous, like the financial retirement incentives contained in benefit formulas for private pensions. Others, like age discrimination, are far more subtle and more difficult to address. Still others, like the physical limitations of older workers, may be more perceived than real. In this chapter, we examine these issues as they affect the supply of older workers. We also assess the demand for older workers, focusing on the problems that employers face in hiring and retaining them.

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### RECOGNIZING THE VALUE OF OLDER WORKERS

Many of the obstacles that older Americans face in the workplace relate to misconceptions about their abilities. Advocates for older workers have been tireless in their efforts to address these misconceptions and promote more understanding of the benefits of employing them.\* We can draw some general conclusions about the value of older workers, but ultimately, each company must make an honest assessment of its own requirements for employees. Unfortunately, many employers have found it easier to

ignore the issue altogether, focusing on the costs of older employees rather than attempting an accurate accounting of the value they bring to the organization. These costs are important and constitute some of the key barriers to work for older Americans. We address wage, pension, health insurance, and other costs later in the chapter. But any cost differentials between older and younger workers should be weighed against the added value that older employees bring to their companies.

Older workers represent a tremendous source of experienced human capital. The value of experience may be difficult to measure in individual firms, but it provides concrete and quantifiable benefits for the economy as a whole. Economy-wide productivity growth depends critically on human capital improvements, which can be estimated as a combination of educational attainment and work experience. When work experience declines, as it did slightly between 1963 and 1992, productivity suffers; between these years, declining work experience due to a younger work force reduced productivity gains by 6 percent.<sup>42</sup>

Older workers' human capital includes specific skills acquired formally and informally over years of work, but it also encompasses less defined attributes that add value to the workplace. Years of trial and error contribute to the development of analytical and interpersonal skills that inform all types of work. Employers report that these "judgment" skills are above average among their older employees.<sup>43</sup>

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\* Groups such as the AARP, the American Society on Aging, the National Older Workers Career Center, and the federal Administration on Aging are just a few of these advocates.

Older workers demonstrate a higher degree of loyalty to their employers, reflected in employer surveys and tenure data.<sup>44</sup> Job tenure increases steadily with age and declines slightly only after age 65 (see Figure 11). Furthermore, older recent hires prove to be more stable than younger recent hires.<sup>45</sup>

Older workers often demonstrate a greater flexibility in work arrangements than younger workers. Those seeking post-retirement employment are frequently eager to work part-time or in contingent work arrangements.<sup>46</sup> Workers over the age of 65 are nearly twice as likely to work in contingent arrangements as are their younger counterparts.<sup>47</sup> (However, this flexibility does not characterize all older workers. In particular, workers in their 50's are

not as likely to be interested in contingent work, preferring stable, full-time employment.)

## REMOVING BARRIERS TO WORK: PROGRESS ALREADY MADE

A number of barriers and disincentives that discouraged work in the past no longer exist. In 1986, the mandatory retirement age was eliminated under the federal Age Discrimination in Employment Act (ADEA). Prior to this, employers could force workers to retire at age 70; before 1978, mandatory retirement was permitted as early as age 65. The direct benefit of ending mandatory retirement may have been smaller than anticipated by policymakers, however, since many of the financial incentives to retire remained and proved to be powerful.\*

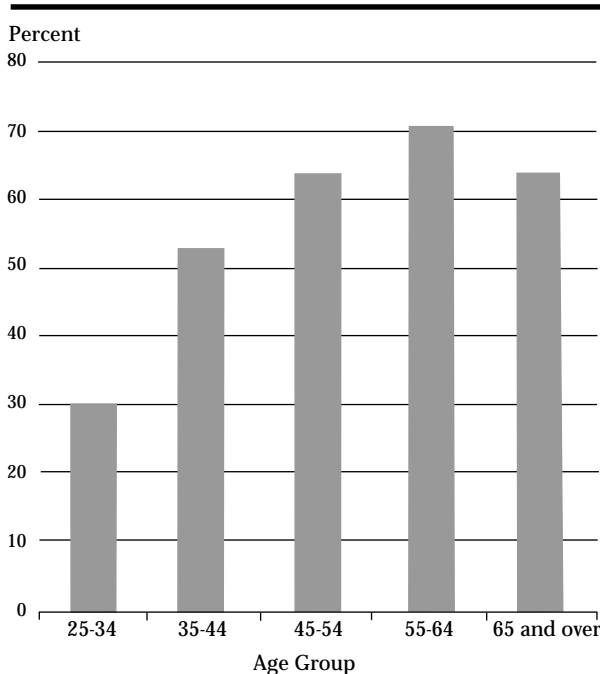
The *indirect* benefit of ending mandatory retirement, however, may have been much larger. Its elimination sent a signal to employers and workers alike that older Americans could continue to be productively engaged in the work force and should not be held to arbitrary limits on the length of their employment.

Finally, changes to the Social Security program, coupled with recent trends in private pension plans, have reduced important financial disincentives to work. Public and private pensions have long been structured to penalize work after a certain age, often as early as age 55 in private plans (see "Financial Incentives to Retire" in this chapter). A number of these penalties have been removed from the Social Security program in recent years, and the number of private pension plans that penalize work are declining relative to "work neutral" plans.

\* During the 1960's and 1970's, one-third to one-half of older men held jobs with mandatory retirement provisions. But a majority of these workers left their jobs before the mandatory age. Only an estimated two to three percent of older workers were forced to retire in the early 1980's, prior to the elimination of mandatory retirement. See Ruhm, Christopher, "Determinations of the Timing of Retirement," Peter Doeringer, ed., *Bridges to Retirement: Older Workers in a Changing Labor Market* (Ithaca, NY: Cornell University), 1990; Burkhauser, Richard and Joseph Quinn, "Is Mandatory Retirement Overrated? Evidence from the 1970s," *The Journal of Human Resources*, Vol. 18, No. 3.

**Figure 11**

**Job Tenure by Age: Workers who have been with their current employer 5 or more years, as a percent of total workers in each age group.**



SOURCE: Bureau of Labor Statistics, February 1998.

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## THE SUPPLY SIDE OF THE LABOR MARKET

### Physical Ability as a Barrier to Work

Sixteen percent of older Americans who are no longer working report that they are unable to work.<sup>48</sup> Health problems can play a determining role in the work-retirement decision.<sup>49</sup> Withdrawal from the work force for health reasons is more common for those in physically demanding jobs and industries such as mining and construction.<sup>50</sup>

Physical limitations on work, though, play a small role in the retirement decision for most older workers.<sup>51</sup> Of the vast majority of workers who have retired by age 65, most still view themselves as able to work.\* Perhaps more revealing, variations in health do not appear to account for much of the difference between those who take early Social Security benefits at age 62 and those who delay benefits until age 65.<sup>52</sup> If poor health accounted for a great deal of early retirement, we would expect those retiring at 62 to be considerably less healthy as a group than those retiring at age 65.

Just the same, age does have some effect on ability to work. The incidence of physical impairments increases with age, with physical capacity beginning to decline in middle age.<sup>53</sup> Health problems also arise more frequently with age. Yet, these are gradual processes. Many of the severe conditions and limitations stereotypically associated with old age are most common among much older Americans. In fact, those ages 65 to 74 are more similar in health status to those ages 45 to 64 than to those over 75.<sup>54</sup>

Cognitive function does not appear to decline until very late in life. Deficiencies in adaptability and learning typically attributed to older

workers are likely to be the product of environment and attitudes — of the older workers themselves, their employers, and their co-workers — rather than inherent.

For most Americans approaching typical retirement ages of 62 to 65, then, there are few physical, health, or cognitive barriers to continued work. Compared with their younger counterparts, they are slightly less able to perform physical tasks in the workplace, but they appear to compensate for this by acquiring skills or switching to positions that are less physically demanding.<sup>55</sup> Unfortunately, misperceptions on the part of employers about physical limitations, as well as real cost issues related to health problems, create significant barriers to employment for many older workers.

### Financial Incentives to Retire

Older workers face an array of financial incentives that encourage withdrawal from the work force. For many decades, the nation's public and private pension systems imposed very strong penalties on work beyond a certain age, frequently as low as 55, but these penalties in the Social Security program have been greatly reduced. Many companies, though, have not yet made comparable strides in adjusting their own pension plans.

### Social Security

Provisions in the Social Security program related to benefit calculations and eligibility have had powerful effects on retirement decisions, encouraging workers to retire and penalizing continued work. (See Box page 22, "A Guide to the Social Security Program" for an overview of Social Security.) When recent reforms to the program are fully implemented, however, it will be substantially more neutral toward work, at least for the average worker.

One of the goals of the program at its inception was to draw older workers out of the work force in order to make jobs available to younger workers.<sup>56</sup> The availability of pension income alone created a powerful retirement incentive for scores of Americans who previously had no

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\* Even of those who report being unable to work, some may overstate their limitations due to social attitudes, which may view poor health as a more acceptable reason not to work than pursuit of leisure. Ruhm, Christopher, "Historical Trends in the Employment and Labor Force Participation of Older Workers," William Crown, ed., *Handbook on Employment and the Elderly*, 1996.

## A GUIDE TO THE SOCIAL SECURITY PROGRAM\*

### Overview

The Social Security retirement program is a contributory, wage-related, defined benefit plan financed primarily by dedicated federal payroll taxes. It contains elements of pension insurance (largely unfunded) and welfare. An individual's benefits are related to past covered earnings by a complicated formula which provides larger benefits relative to earnings for lower income workers. By comparison, the revenue source is rather simple — a flat-rate tax paid on all earned income up to a specified limit (\$72,600 in 1999). The program is progressive, with low-income participants receiving higher replacement rates (share of pre-retirement income "replaced" by Social Security benefits) than high-income participants.

### Benefit Formula

The benefit formula for Social Security beneficiaries is determined in a number of steps. First, the worker's average indexed monthly earnings (AIME) are determined based on the 35 years of highest covered earnings. Second, a benefit rate formula is applied to the AIME to determine the primary insurance amount (PIA), the monthly benefit received by a worker retiring at age 65 (the so-called "normal retirement age"). This benefit formula has a progressive, three-bracket rate structure based on monthly income categories. The dollar amounts of monthly income that define each bracket (these thresholds are known as "bend points") are adjusted annually to reflect increases in wages, as measured by an average wage index. Once benefit payments begin, they are increased automatically each year to reflect the rise in inflation as measured by the Consumer Price Index (CPI-U).

### Adjustment for Early or Late Retirement

Initial benefits are lowered for workers who retire before age 65, the current normal retirement age, and raised for those who delay retirement. The earliest eligible age at which a worker may receive benefits is 62 years. Workers retiring at that age receive 80 percent of the monthly benefit amount they would receive if they began collecting Social Security at age 65. This adjustment makes the benefit approximately "actuarially fair" for ages 62 through 65, so that the average 62 year old beneficiary will receive the same lifetime benefit amount as the average worker who waits until the normal retirement age of 65 to begin receiving benefits. For each year after 65 that a worker postpones retirement, monthly benefits are currently raised by 5.5 percent. This rate is not quite actuarially fair — the lifetime value of benefits begun at age 66 and older is less than the value of benefits begun at earlier ages. Recent changes to the program will increase the delayed retirement credit to 8 percent by 2010, which will be actuarially fair for the average worker.

### Adjustment for Work

Currently, the benefits of recipients are reduced if they earned income above a prescribed limit in the course of the year. The limit for those ages 65 through 69 is currently \$15,500; for those ages 62 through 64 it is \$9,600. There is no earnings limit for those over 70. For retirees between the ages of 65 and 70, benefits are reduced by one dollar for every three dollars earned above the limit. For retirees between ages 62 and 65, the reduction is one dollar for every two dollars earned.

\* This summary is based on a longer overview in CED's 1997 statement, *Fixing Social Security*.

old age income other than earnings from work. Retirement incentives also arose in the program through the benefit adjustments for early and late retirement and the earnings limits imposed on beneficiaries.

It is evident that workers responded to the retirement incentives created by the program. First, the frequency of retirement at ages 62 and 65 (the “early” and “normal” retirement ages under Social Security) has been higher than for other ages.<sup>57</sup> Nearly 25 percent of working men retire upon turning 62. In fact, the frequency of retirement at age 62 belies the designation “early retirement;” 62 has in fact become the normal age of retirement in the United States. Social Security is not the only explanation for the rates of retirement at 62 and 65. Private pension plans play a role, as does Medicare eligibility, as described below.

The work disincentives in Social Security have also been reflected in worker responses to the earnings test. Reported earnings of Social Security recipients cluster at levels just below the earnings limits set by the program, suggesting that workers understand and respond to the work disincentives created by these limits.<sup>58</sup>

By 2010, changes to benefit calculations for early and delayed retirement will make the program actuarially “neutral” or “fair” for the average worker. A worker who chooses to delay receipt will not suffer a loss in expected benefits over his or her remaining life compared with the benefit stream starting at 65. These changes go a long way toward achieving neutrality in the program when it comes to work. It is not neutral toward work for all older workers, however. For lower income workers, the benefit structure continues to punish work, particularly past age 65, due to differences in average life expectancies.<sup>59</sup> Actuarial neutrality is based on average life expectancy; for those with *below* average life spans (typically associated with lower income workers, those in physically demanding jobs, and minorities), delaying benefits beyond the earliest eligibility age may not be a good deal financially. Also, when the impact of payroll taxes on earnings is con-

sidered, the benefit structure becomes considerably less neutral toward work. Beneficiaries are no longer subject to the payroll tax, while those who continue to work also continue to pay this tax on earnings.\*

Progress has also been made in adjusting the program’s earnings limit for those 65-69, which is scheduled to increase from its current level of \$15,500 to \$30,000 by 2002.<sup>60</sup> For beneficiaries under age 65, the earnings limit is \$9,120 and will rise to \$10,440 by 2002.

Finally, Social Security’s normal retirement age, at which a worker can first receive full benefits, is scheduled to increase gradually between 2003 and 2026, eventually rising to 67. The normal retirement age also functions as a benchmark for private defined benefit pension plans and employment policies. Employers are permitted to integrate their pension benefits with Social Security benefits.<sup>61</sup> As a result, an employee’s pension benefit can depend, in part, on his or her Social Security benefit, as determined by, for instance, the earnings history.

Importantly, the Social Security early retirement age will remain at 62 in the future as the normal age rises to 67. Because the program now adheres to a principle of actuarial fairness (at least on average), the growing gap between the two eligibility ages will result in a smaller benefit for early retirees. Benefits at age 62 currently are 20 percent lower than age 65 benefits; when the normal retirement age reaches 67, this reduction in benefits will be 30 percent.

The changes made to Social Security in the 1980s and 1990s were intended to shore up the system in order to meet future obligations. These reforms improved projected cash flow by reducing the net benefit received by retirees and by reducing the financial penalties associated with work. The impact of these changes

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\* The negative impact of payroll taxes on neutrality is tempered somewhat by the fact that older Americans who continue to work will, on average, have higher Primary Insurance Amounts (and therefore higher benefit levels) than they would have if they retired and began to receive benefits.



on work suggest that they will be significant but not large, measured in additional months of work rather than years.<sup>62</sup>

### ***Private Pensions and Early Retirement Incentive Plans***

Private pensions play a key role in the retirement decisions of many older workers and employers have used their pension plans very effectively to encourage retirement. Nonetheless, the past few decades have witnessed the decline of defined benefit plans, which often contain strong work disincentives, and the rise in defined contribution plans, which are more neutral towards work. (For further discussion, see Box, "Private Pension Plans: An Overview of Key Characteristics").\* Yet, defined benefit

plans remain the primary pension type for half of all workers with pension coverage, and the strong work disincentives in these plans continue to influence retirement decisions.\*

For workers participating in defined benefit plans, the disincentive to work after the age of earliest eligibility — typically age 60, but as young as age 55 — can be great. A survey of 1,000 pension plans showed that continued work after early retirement eligibility typically reduced the lifetime value of a pension by the equivalent of a 30 percent pay cut.<sup>63</sup>

Employers have often used another retirement "carrot" in addition to the company pen-

\* The growing popularity of defined contribution plans among employers has much more to do with their low cost relative to defined benefit plans than with their neutrality toward work.

\*Not all defined benefit plans create work disincentives. A growing number of employers are converting to cash balance plans, which are a "work neutral" variant of the traditional defined benefit plan. Taken together, the growing importance of cash balance and defined contribution plans suggest significant progress toward work neutrality in private pensions.

## **PRIVATE PENSION PLANS: AN OVERVIEW OF KEY CHARACTERISTICS\***

### **Defined Benefit Characteristics**

Defined benefit pensions pay benefits to eligible employees according to a formula based on years of employment in the firm and earnings during some portion of those years (often the highest or last three to five years). Eligibility is based on a minimum amount of service within the firm. Like Social Security, defined benefit plans specify a normal retirement age, though it may vary based on years of service to the firm. These plans also typically feature an early retirement option. Early retirement results in some reduction in the amount of the pension payments. Yet, the net present value of a lifetime of these payments is frequently higher under early retirement than it would be for retirement at the normal age. In general, the lifetime (or "annuity") value of pension payments under defined benefit plans does begin to decline at some age of continued service to the company, often at the earliest age of pension eligibility.

### **Defined Contribution Characteristics**

Defined contribution plans are much simpler in structure than defined benefit plans. These plans are essentially individual retirement accounts, which enjoy tax advantages over other forms of saving. The employer, and sometimes the employee, makes a regular contribution to the worker's account, with little other involvement. The worker has considerable control over the account, making decisions about how funds are to be distributed among investments as well as how much he or she would like to contribute personally to the account. Unlike defined benefit plans, there is no benefit formula — the value of the account is determined by the performance of investments over the life of the worker's contributions. As a result, there is no critical age at which the annuity value of the defined benefit plan begins to decline for the worker.

\* SOURCES: Turner, John and Tabitha Doescher, "Pensions and Retirement," Wm. Crown, ed., *Handbook on Employment and the Elderly*, 1996; Quinn, J., Burkhauser, R., Cahill, K., and Weathers, R., "Microeconomic Analysis of the Retirement Decision: United States," OECD Working Paper No. 203, 1998.

sion plan: the Early Retirement Incentive Plan (ERIP). In contrast to the complicated maze of pension benefit formulas, there is little ambiguity about the intention of ERIPs or how they work. In agreeing to voluntarily accept early retirement, workers are eligible for additional benefits, typically in the form of an enhanced pension and/or severance pay.<sup>64</sup> These offers are short term and must be taken within a limited window, although in practice the window is re-opened frequently. Although by law they must be offered to all employees, regardless of age, they are structured to be most attractive to older workers.

ERIPs have been used most frequently by larger firms, including 80 percent of Fortune 100 companies, as a downsizing and restructuring tool.<sup>65</sup> Rather than lay off employees, firms induce older employees to leave voluntarily — a more palatable option in the eyes of the employees and the public.\* But the ERIP represents a broad brush approach to downsizing and is often based on the premise that older workers are less productive relative to their compensation than younger ones.

The experience of ERIPs suggests that they have not always served the best interests of employers or employees. Although they are generally well-received by employees, some workers report feeling pressured by the early retirement offers.<sup>66</sup> Further, those who accept ERIP offers do not necessarily evaluate the offer's financial value accurately, nor do they have realistic expectations about the job market they will face. What appears to be a substantial lump sum payment often does not last as long as anticipated, particularly when income from a new job does not materialize.

Although ERIPs have become a fixture in today's workplace, particularly in large firms, their future is uncertain. As younger workers become more scarce and employers come to

view older workers more favorably, we might expect the use of retirement incentive plans to decline. However, a dynamic economy will always create industry shifts and restructuring, leading to further downsizing in individual firms. And as defined benefit plans become less prominent, employers will have fewer tools at their disposal to encourage retirement. As a result, the ERIP may play a more prominent role in the future, particularly in firms and industries that are experiencing substantial economic change.

### *Medicare and Health Coverage*

Because people require more health care as they age, access to health insurance is very important to older Americans, and health coverage plays an important role in the retirement decision. And as the cost of self-insuring has become increasingly burdensome for older Americans, the importance of employer or government-provided insurance has increased. For older workers with access to employer-provided health insurance, health coverage provides a strong incentive to work. Workers with access to retiree health insurance do not have the same incentive to keep working. In fact, these workers do retire earlier than those with no retiree health insurance.<sup>67</sup>

A majority of workers, however, do not receive health insurance benefits of any kind from their employers after retirement.<sup>68</sup> For them, eligibility for Medicare is critical. Unlike Social Security, the Medicare program does not allow for early receipt of benefits. The first year of Medicare eligibility coincides with Social Security's normal retirement age of 65.\*

For the majority of workers who do not have access to employer-provided insurance in retirement, Medicare's eligibility rules create

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\* According to one survey, two-thirds of employers said that ERIPs were used in an attempt to avoid mandatory lay-offs. Herz, Diane, "Work After Early Retirement: An Increasing Trend Among Men," *Monthly Labor Review*, April 1995, p. 16.

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\* Because eligibility for both programs occurs at the same age, it is difficult to isolate the effects of Medicare on the retirement decision. Nonetheless, careful analysis suggests that Medicare does impact the retirement decision. See Madrian, Brigitte and Nancy Dean Beaulieu, "Does Medicare Eligibility Affect Retirement?" David Wise, ed., *Inquiries in the Economics of Aging* (Chicago: University of Chicago Press), 1998.

an incentive to work until age 65 and an incentive to retire once eligible at 65. As the cost of health insurance has increased, the work-retirement incentives created by Medicare have become more potent. Medicare eligibility explains some of the high rate of retirement at age 65 that is not explained by Social Security or private pension incentives.<sup>69</sup>

About 10 percent of older persons ages 58 to 63 do not have health insurance of any kind.<sup>70</sup> These workers are immune to any incentive effects created by Medicare or employer-provided insurance. They are also extremely vulnerable to financial catastrophe as a result of illness. The "continuation of coverage" provision of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) guarantees access to health insurance during periods of unemployment and job change, but only for workers who had access to health insurance in their previous employment and only for 18 months. Furthermore, workers are responsible for the full premium under COBRA, pricing many out of this coverage even though it may still be cheaper than non-COBRA coverage.

### *Disability Insurance*

Private and public disability insurance fills the gap in retirement and health coverage for those with physical limitations on work. Long-term private disability insurance coverage is limited, reaching 42 percent of employees in medium and large establishments and only 14 percent of employees in small businesses.<sup>71</sup>

Public disability insurance is provided universally through the Social Security Disability Insurance (DI) program.\* The program has grown rapidly from about one-half million en-

rollees in 1960 to 4.7 million in 1998.\* DI disproportionately serves older Americans; while those 55 and over make up only 14 percent of the adult population, they account for 37 percent of DI beneficiaries. DI benefits, which are equivalent to full Social Security benefits at the normal retirement age, can serve as a means of early retirement by providing income until Social Security benefits become available.<sup>72</sup>

Although the program provides an important safety net for older workers who become disabled, DI also creates strong work disincentives. The DI program historically has taken an extremely rigid view of work and disability: those who were disabled were not expected to work. Modest steps have been taken to remove the program's heavy anti-work bias, such as allowing a trial work period of up to 9 months during which earnings are disregarded. After this trial period, recipients become subject to an earnings test, currently \$500 a month. If this income level is exceeded, the recipient is at risk of losing benefits completely, depending on consistency of earnings.<sup>73</sup>

As a result of these provisions, *fewer than one percent of those on the DI rolls return to work each year.*<sup>74</sup> As DI enrollment exploded between 1960 and 1996, the labor force non-participation rate among men 45-64 grew by over 160 percent.<sup>75</sup> Analyses suggest that the program has, in fact, had a strong work disincentive effect.<sup>76</sup> In periods when program denial rates rose (due to funding problems), labor force withdrawals by older workers declined. Arguably, more stringent denials could have unfairly been pushing truly disabled workers back into the workplace, creating real hardships for these workers. Yet, health measures of those leaving the work force during high denial periods suggest that the increased stringency of the program effectively targeted those who were better able to work.<sup>77</sup>

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\* Disability is defined as "the inability to engage in any substantial gainful activity by reason of medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months. Social Security Administration, 1992. See Hoynes, Hilary Williamson and Robert Moffitt, "Tax Rates and Work Incentives in the Social Security Disability Insurance Program: Current Law and Alternative Reforms," *NBER Working Paper No. 6058*, June 1997.

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\* DI benefit payments grew from \$2.5 billion in 1960 to \$48 billion in 1998 (constant 1998 dollars). Calculations based on data from the 1999 Annual Report of the OASDI Trustees.

For those who could work but remain on the DI rolls, access to health insurance is often the determining factor. The DI benefits package includes full access to Medicare for those who have received cash benefits for 24 months. Partial disabilities, while not necessarily limiting work, may require expensive health care. Even if potential employment earnings would exceed DI's cash benefit amount, DI recipients are not likely to return to work if there is no alternative to the Medicare coverage.

### **Leaving Career Employment: Problems in the Job Market for Older Workers**

Another barrier to work for many older Americans is a difficult job market. Job loss among older workers has increased during the 1990's compared with the previous decade.<sup>78</sup> As a result of structural changes in the economy that have caused corporate downsizing, an increasing number of older, long-tenure workers have found themselves involuntarily in the job market.

The inducement to retire as the result of unemployment is strong. Older workers who lose their jobs are three times as likely to retire as are employed older workers,<sup>79</sup> and the effect is even stronger when national unemployment rises. By one estimate, 18 percent of older job losers would retire if the unemployment rate were at 4 percent, compared with 44 percent if it were at 8 percent.<sup>80</sup>

The tendency to drop out of the work force after job loss partly reflects the availability of retirement. Younger workers cannot receive Social Security benefits after job loss, unlike workers over the age of 62. But discouragement is also a product of the difficult job market many older workers face. Although they are less likely to be unemployed, older workers experience longer spells of unemployment than younger workers after a job loss.<sup>81</sup>

Unemployment is particularly persistent for certain subgroups of older workers. Less educated workers, those in poorer health, and black men experience longer unemployment than

otherwise comparable older unemployed workers.<sup>82</sup> Older workers with these characteristics account for much of the long-term decline in participation rates by older Americans, suggesting that declining job opportunities for less skilled workers has played a role in retirement trends.<sup>83</sup>

When older workers lose their jobs, they typically earn significantly less when re-employed. By one estimate, older workers who lose their jobs experience a 39 percent reduction in earnings in the two years following job loss.<sup>84</sup> Even during the prolonged economic expansion of the 1990's, older workers who lost jobs continued to experience significant earnings losses when re-employed, unlike their younger counterparts who, on average, saw no significant losses when re-employed.<sup>85</sup> In these situations, retirement savings and other assets can be quickly depleted.

Older Americans also face a narrower range of new employment opportunities than do their younger counterparts. Newly hired older workers are employed in a smaller set of industries and occupations compared to newly hired younger workers or to all older workers.<sup>86</sup> For example, older workers are less likely to be hired in jobs that require extensive firm-specific training.<sup>87</sup> Employers prefer younger workers for positions that require such training.

The problem of job opportunities also has a geographic component. Often, unemployment is the result of declining local or regional industries. Finding a new job may require relocation, often a daunting prospect for workers with life-long roots in a community. It can also be an expensive prospect, especially if housing prices in that community are falling as a result of the region's overall economic problems. In these cases, older workers are particularly vulnerable.<sup>88</sup>

### **Phased Retirement Is Rarely an Option**

One explanation for the prevalence of early retirement is the lack of alternatives for the older worker. Older Americans who no longer

want to put in a 40-hour work week typically face the choice between a difficult job market and full retirement. As we note in Chapter 3, the job market need not be as tough as it has been for older workers. Nonetheless, looking for a new job later in life is not for everyone. A third option — phased retirement — has the potential to meet the needs of these workers, but has yet to be adopted in the American workplace. Phased retirement is commonly defined as continued employment with the same employer in a reduced capacity, normally with fewer hours and lower wages. In Japan, phased retirement, or post-retirement employment with the same or affiliated company, is common.<sup>89</sup>

In the United States, only one-third of workers approaching retirement believe that they could move into less demanding work (at reduced pay) with their current employers.<sup>90</sup> The remaining two-thirds do not expect their employers to accommodate such a transition.

Phased retirement programs face organizational barriers. Like other flexible work arrangements, phased retirement may be difficult to integrate into workplaces that rely on team production.<sup>91</sup> Often, production requires a standardization of work schedules, including the number of hours worked and start and stop times. Nonetheless, part-time work has become a fixture in today's economy, where 90 percent of companies employ part-time workers, and other flexible work arrangements are also common.<sup>92</sup>

Beyond organizational issues, hurdles to more widespread use of phased retirement include benefit rules. For example, when pension benefits are determined in part by salary during the last years of service, few employees are likely to scale back hours of work during their final years. Some workers might seek to avoid this problem by drawing on pension benefits as they enter phased retirement. However, this can pose problems for the worker, since the Employment Retirement Income Security Act (ERISA) permits pension providers to effectively reduce monthly pension benefits if

the beneficiary continues to work more than 40 hours per month.\*

Phased retirement may also be limited by the unwillingness of career workers to accept reduced pay for reduced hours and responsibilities, and many older workers may not be eager to accept a “demotion” implied by phased retirement after years of building a career within the organization.

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## THE DEMAND FOR OLDER WORKERS

The willingness of older Americans to continue to work is only half of the equation; whether employers will hire them is equally important. The limited demand for older workers is reflected in various ways, including the financial incentives to retire contained in private pensions, the prevalence of ERIPs, and the difficulty unemployed older workers have in finding new employment. These factors suggest that older workers are less attractive to employers because they are less productive and/or more costly than younger workers. These are certainly the stereotypes of older workers. Yet, reality does not necessarily square with this picture.

Misconceptions about older workers have been shaped by decades of plentiful labor. With inexpensive younger labor readily available, employers have had little incentive to hire or retain older workers. The end of the labor surplus era, however, will force employers to reassess the value of their older employees and weigh legitimate cost concerns against estimates of their productive value.

### Assessing Older Worker Productivity

There is little direct evidence on the productivity of older workers relative to younger

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\* In multi-employer plans, reductions can occur for employees continuing to work within the industry, trade, or craft covered by the plan. Crown, William, “The Political Context of Older Worker Employment Policy,” *Handbook on Employment and the Elderly*, 1996; Kahne, Hilda, *Reconceiving Part-time Work: New Perspectives for Older Workers and Women*, 1985; Dave Baker, BenefitsLink Publisher, private correspondence, February 18, 1999.

workers. Employers do not report their own measures of these differences, if they track them at all. Measurement itself is a problem — assessing productivity for individual workers and firms is difficult, given the tremendous diversity in jobs and worker skills.<sup>93</sup> There is some evidence based on measures of physical and cognitive function (described earlier in this report) as well as case studies that measure worker output in individual companies.<sup>94</sup> This evidence indicates no significant difference in the job performance of older and younger workers.<sup>95</sup>

Manager and employer surveys shed some light on older worker performance. As noted above, employers rate older workers above average on experience, judgment, commitment to quality, attendance and punctuality, and low turnover. Older workers are perceived by employers to be below average on flexibility and adaptability, acceptance of new technology, ability to learn new skills, and physical ability.<sup>96</sup> But these surveys also reveal employer biases when compared with objective measures. For example, as explained in Chapter 1, there is no evidence that physical ability or cognitive function declines significantly during the years that the vast majority of older Americans remain employed.

### *Productivity, Skills, and Training*

A key factor in older worker productivity is skill level and training. Historically, older workers have been less educated than younger workers. Much of this difference, however, is a generational effect: successive generations of Americans have been better educated, completing high school and attending college at ever higher rates.

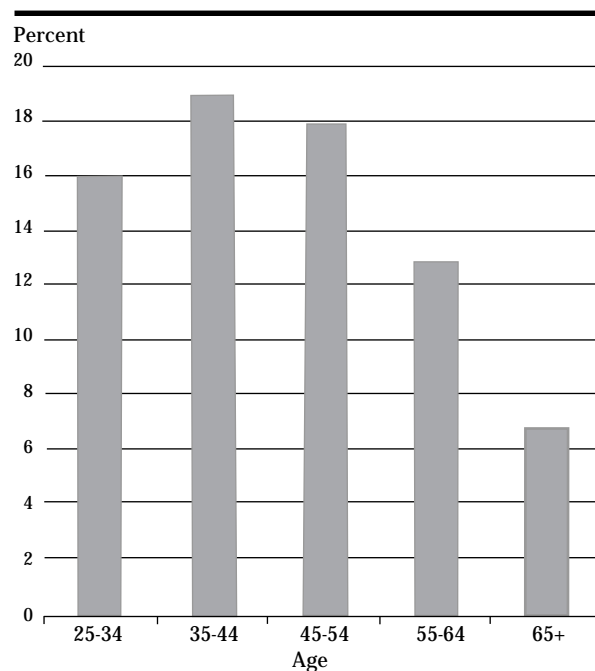
Educational attainment at the beginning of one's working life, however, is not all that matters. The ability and willingness of workers to maintain and update skills throughout their working lives is also important. As Figure 12 indicates, workers over the age of 55 are far less likely to receive training to improve their skills than any other age group.<sup>97</sup>

The reluctance of older workers *and* their employers to update skills, rather than any inherent inability on the part of the workers, is a major problem. There is no discernible decline in trainability among older workers, so long as these workers have maintained their skill levels throughout their careers.<sup>98</sup> On average, older workers require longer training times than younger ones, and may achieve lower levels of mastery from training.<sup>99</sup> But this evidence does not indicate any deficiency in the ability of older workers to apply their training to the job.

For employers, the reluctance to encourage training for older employees is driven in part by concerns about the training time horizon. They are unwilling to invest in a worker who

**Figure 12**

### **Percent of Workers Receiving Training From a Company Program by Age of Worker**



SOURCE: Amirault, Thomas, *Training to Qualify for Jobs and Improve Skills*, Monthly Labor Review, September 1992, pp. 31-36.

they expect to retire within a few years. Job retention, however, is highest among 55-to-64 year olds, even when the older worker is a recent hire.<sup>100</sup> Further, job tenure after receiving training is higher for older workers than for younger ones.<sup>101</sup> Reluctance to train workers nearing retirement may be a self-perpetuating problem: without adequate training, workers reach a plateau in their careers when little more than retirement is expected of them.

## The Cost of Older Workers

### Earnings

Individuals' earnings typically increase over their working lives, independent of growth and wage trends in the economy. There are two possible explanations for this. First, higher pay might reflect higher productivity because older workers are more experienced. Alternatively, older workers might be paid *above* their level of productivity.

Being overpaid late in one's working life may be the outcome of an implicit contract between workers and employers. Workers may be underpaid (relative to productivity) during the early part of their careers, with the understanding that their pay will increase steadily over time and rise above productivity late in their careers. Such an arrangement would create an incentive for the young employee to remain loyal to the firm. There is, in fact, evidence of such implicit contracts: a firm-level study of employee data over the course of 15 years found that compensation was below productivity early in careers and exceeded productivity later.<sup>102</sup> Implicit contracts would also provide some explanation for employers' use of financial incentives to encourage retirement.

### Health Insurance

There are higher costs associated with employing older workers that are largely independent of earnings. Chief among them is health care coverage. Employers provide health insurance coverage for 72 percent of the work force. The cost of this coverage amounted to 7.1 per-

cent of compensation in 1996, a 300 percent increase in this share over the past 30 years.<sup>103</sup> Coverage increases with age, so that 82 percent of full-time workers ages 55 to 64 have employer-provided insurance, compared with 55 percent of 16-to-24 year olds and 76 percent of 25-to-44 year olds.<sup>104</sup>

On average, the cost of coverage is higher for older employees than for younger ones.\* The cost disparity is greatest for men: employer health costs are more than twice as high for male workers over age 50 than for those under age 50.<sup>105</sup> For women, the differences are not so extreme. In fact, health costs during child-bearing years are higher for women than costs during ages 40 to 55. Nonetheless, by age 55, women's health costs begin to increase again, so that older female workers are more expensive to insure than their younger counterparts.

The higher health costs associated with older workers are borne directly by companies that self-insure and those with experience-rated third party coverage. For companies with community-rated coverage, the higher medical costs of older workers are spread over the larger community and are not experienced directly by the individual employer.<sup>106</sup>

Firms that provide health insurance coverage to their employees are less likely to hire older workers than firms with no health coverage.<sup>107</sup> The more generous the benefit provided, the less likely the firm is to hire older workers. Firms that provide retiree health insurance have even less incentive to hire older workers, who are more likely to use that benefit than younger workers. Employers generally provide retiree health benefits to all qualified employees regardless of years of service, as required by law. (See following section, "Pension Costs".)<sup>108</sup>

\* Older workers have lower health costs than *non*-working older Americans. Health expenditures for non-workers ages 55 to 69 are nearly twice as high as expenditures for workers in this age group. Barth, Michael et al., "The Costs and Benefits of Older Workers," William Crown, ed., *Handbook on Employment and the Elderly*, 1996

Before 1982, Medicare was the primary health insurance for everyone over 65, whether or not employed.\* Now, if a worker is covered by employer health insurance before turning 65, the employer is required to continue coverage for the length of employment, even after 65 when the employee would otherwise be eligible for Medicare. As a result of this change, older workers have become more expensive to employers.

### *Pension Costs*

As noted earlier, employers who offer defined benefit pension plans often use them as an incentive for early retirement, structuring pension formulas to offer maximum lifetime payments at the earliest age of retirement eligibility. Pension costs alone offer good reason for employers to encourage retirement, quite apart from any other costs associated with older workers. The accrual rate for many defined benefit plans rises rapidly as employees age. As a result, employer payments to these plans are much higher for older employees than for younger ones.

Defined contribution plans do not create comparably large cost differentials between younger and older workers. Typically, employers' contributions amount to a fixed percentage (often 3 to 5 percent) of salary for all employees.<sup>109</sup> Because older workers earn more on average than younger workers, employer payments to defined contribution plans are higher for older workers. But this cost difference is very small relative to the difference created by defined benefit plans.

Regulations affecting pension benefits can make older workers more costly to employers. ERISA, which regulates private pension benefits, generally requires firms to extend similar

pension benefits to employees working more than 1,000 hours per year.\* These regulatory requirements appear to discourage the employment of older workers in general, but especially affect low wage, entry-level older workers, whose earnings cannot be reduced enough to offset expensive pension benefits.<sup>110</sup> Firms that offer defined benefit pension plans, which face these regulatory restrictions, are less likely to hire older workers than firms that do not offer such plans.<sup>111</sup>

### *Other Benefit-Related Costs*

Other fringe benefits also cost more for older workers. Some higher costs are related to seniority and tenure. For example, paid leave time may increase with years of employment or seniority, both of which are higher on average for older workers. For newly-hired older workers, these costs would not be an issue.

Other age-related costs are similar to health coverage to the extent that they are independent of tenure or seniority. For example, life insurance naturally costs more for older workers than for younger workers, whether newly hired or a long-time employee. The cost of employer-provided disability insurance, on the other hand, appears to remain constant across age groups; older workers are more likely to become disabled, but the pay-out period for their disability is shorter.<sup>112</sup>

### *Other Cost Issues*

The costs of pension, health, and other fringe benefits are a primary concern for large employers in hiring and retaining older workers. But for firms that do not provide such benefits to their employees, including most small and many medium size firms, these cost considerations are not an issue. Yet, there are other cost issues that affect all employers, large and small.

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\*Beginning in 1982, employers were required to meet health insurance obligations for workers ages 65 to 69 before Medicare provided coverage. In 1984, this was extended to spouses of workers ages 65 to 70 and in 1986 to individuals with disabilities covered by firms with at least 100 workers. U.S. Social Security Administration, *Annual Statistical Supplement*, (Washington, DC: U.S. Government Printing Office), 1996.

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\* In practice, compliance with pension coverage rules requires a complex set of calculations which are intended to ensure that highly-compensated employees do not receive a disproportionate share of plan benefits. If an employee is part of a covered group used to determine compliance, then he or she must be included as a plan participant after having worked 1,000 hours.



The costs associated with work injury and disability are higher for older workers. Although the incidence of injury is lower, older workers are more likely to suffer permanent disabilities and fatalities.<sup>113</sup> Employer accommodation of injury and health impairment is fairly common. Half of older workers who experience health impairments remain with their current employers after the onset of the impairment. Of these, one-third receive some type of special accommodation, such as a change in work duties, shorter work day, more breaks, or special equipment.<sup>114</sup>

Accommodating disability has become more important for employers since the passage of the Americans with Disabilities Act (ADA) of 1990. (See Box, “Americans with Disabilities Act”.) Like the Age Discrimination in Employment Act described below, the ADA has encouraged anti-discrimination lawsuits against employers. Because many infirmities associated with old age are classified as disabilities under the law, the ADA has extended additional employment protections to older workers.<sup>115</sup> At the same time, the law may also discourage the employment of these workers. Experience since passage of the ADA suggests that employers are now less likely to hire older workers due to fears of ADA-covered lawsuits.<sup>116</sup>

Absenteeism is slightly higher for older workers than for younger ones. For older workers, absences from work are more often due to illness or injury than to personal and family obligations.\* Also, like workplace injuries, absences tend to be longer for older than for younger workers.

## Age Discrimination

The various factors just described demonstrate that employers have legitimate cost concerns when it comes to hiring or retaining

\*The absence rate is 4.1% for workers 55 years and older and is 3.8% for workers ages 25 to 54. The absence rate due to illness or injury is 3.5% for older workers and 2.7% for younger workers. The absence rate for other reasons is 0.7% for older workers and 1.1% for younger workers. 1997 data, U.S. Department of Labor, *Employment and Earnings*, January 1998, Table 44, p. 219.

## AMERICANS WITH DISABILITIES ACT

The Americans with Disabilities Act of 1990 extends protections to the disabled. The ADA defines disability as any psychological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of the following body systems: neurological, musculoskeletal, special sense organs, respiratory, or cardiovascular. Infectious and contagious disease are also considered a disability. As many of the infirmities associated with old age are now classified as disabilities, the ADA extends protections, additional to those offered by the ADEA, to older workers.

The ADA covers employees in firms with fifteen or more employees. Under the Act, employers are required to make “reasonable accommodation” for their disabled employees. This could entail job restructuring, offering part-time work or allowing the employee to work from home, or the purchase of special equipment. The ADA also forbids discrimination against the disabled with respect to hiring, firing, promotion, and wages.<sup>117</sup>

Because the ADA is relatively recent, its long-term reach and impact is somewhat untested. Future court cases will ultimately determine the significance of the Act. In a recent set of decisions, the U.S. Supreme Court limited the scope of the ADA to exclude conditions that are readily corrected with medication or devices such as eyeglasses.<sup>118</sup> Just the same, as the work force ages, the ADA could become an important catalyst in creating more flexible schedules needed to suit the ailments associated with older employees.<sup>119</sup>

older workers. If employing an older worker is to be more than a goodwill gesture, these cost problems need to be addressed. However, there is a difference between legitimate considerations of cost and performance and illegal discrimination against older workers.

There is no definitive measure of the prevalence of age discrimination. Lawsuits filed under the Age Discrimination in Employment

Act (ADEA) have been on the rise since the law's enactment, although this may simply indicate a greater willingness on the part of workers to pursue legal action or the courts to permit it. (See Box, "Age Discrimination in Employment Act".) Few older workers in fact report discrimination in the workplace: 80 to 90 percent disagree with the statement that employers or co-workers exert pressure on them to retire, and fewer than one in five believe that younger workers are given preference.<sup>120</sup>

Although we cannot report on the extent of discrimination nationwide, we do have strong

evidence that it occurs. Experiments in which matched older and younger job candidates are sent out to seek employment reveal both subtle and overt discriminatory practices that favor the younger candidates.<sup>121</sup>

Widespread or not, the effects of discrimination are pernicious, particularly in the job market. Discriminatory practices contribute to a sense on the part of older Americans that the employment deck is stacked against them. As a result, the discouragement that we described earlier is quickly realized, and the older worker withdraws from the work force altogether.

## AGE DISCRIMINATION IN EMPLOYMENT ACT

The Age Discrimination in Employment Act (ADEA) of 1967 was enacted to address problems of age discrimination in the workplace. The Act prohibits employment discrimination on the basis of age for those 40 and older and protects older workers from age discrimination with respect to compensation and terms, conditions, and privileges of employment. It applies to private employers with 20 or more employees, labor organizations with 25 or more members, federal, state, and local governments, and employment agencies.

Since the enactment of the ADEA, there have been several important amendments. In 1978, the ADEA was amended to extend protections to age 70 for the private sector and state and local government employees.\* The amendments barred mandatory retirement up to age 70 for these workers. In 1986, further changes to the law eliminated mandatory retirement altogether, with the exception of tenured university faculty and certain state and local public safety officers.<sup>122</sup>

Since its inception, protections under the ADEA have spawned a wave of anti-discrimination lawsuits by older workers. In order to comply with the law and avoid anti-discrimination suits, companies have to pay close attention to employment practices in several key areas:

**Corporate downsizing.** The ADEA prohibits

downsizing targeted on older workers. In downsizing, employers must avoid any adverse impact on its older work force that is not the result of legitimate seniority, organizational, or performance issues.

**Retirement policies.** Pension practices that encourage older workers to retire do not violate the Act and a so-called "normal retirement age" is acceptable for pension purposes. To set an age at which the employee must retire (with certain exceptions described above), however, violates the ADEA.

**Recruiting and Hiring.** An advertisement for employment requesting "recent graduates" or "young aggressive types" implies an age specification and may be considered age discrimination. Similarly, applications and interviews must be age-neutral. To comply with the law, employers typically remove items on employment applications that would indicate age, such as birth dates or graduation dates. Any conversation related to age during an interview is to be avoided.

**Job assignments.** Assignments must be suited to the ability of the worker, not the age group to which the worker belongs. Age is not an acceptable indicator of performance and ability in determining job assignments. Harassment is another problem area for employers: age-related jokes or comments (e.g., referring to an employee or colleague as "old-timer") could result in a lawsuit.<sup>123</sup>

\* For employees of the federal government, the upper age limit was removed altogether.

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# Chapter 3.

## Policy

## Recommendations

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### DEFINING THE GOAL

Companies are already busy preparing new product lines and revamping old ones for elderly baby boomer consumers. Even prototypes for future models of the Chevrolet Corvette — long a bastion of youth in the automotive market — sport a new, elderly-friendly design.<sup>124</sup> For all of the effort focused on older Americans as consumers though, companies have paid little attention to the aging boomers as workers. So long as businesses view aging trends only in terms of product markets, they are missing half of the potential of this demographic shift. Older workers are a resource that will become harder to ignore as labor shortages and growing entitlement burdens become reality in the next few decades. Yet employers and policymakers have work to do before older workers' potential can be realized.

In this chapter we offer a set of recommendations that will make it easier and more attractive for older Americans to work longer. As a matter of national interest, our goal is to extend working lives on average to reflect ever-longer life expectancies. We recognize, of course, that not all older Americans will wish to work longer or be able to do so. But many will be eager to work, given adequate rewards and opportunities. Ultimately, we would like to see the arbitrary ages of 62 and 65 erased from the national mindset.

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### HOW TO GET THERE

In general, promoting longer work lives will mean leveling the playing field for older workers rather than singling them out for special treatment. We believe that older Americans offer tremendous value to our economy; employers should not require special incentives to hire or retain them.

Our agenda does not include a host of new public spending initiatives. On the contrary, by promoting longer working lives we hope to reduce the surging demand on public resources created by the aging of the baby boomers. Major new public spending for older Americans would be inconsistent with this objective. In a few cases, where current policy is clearly anti-work, as in the cases of Medicare and Disability Insurance, there will be additional public costs associated with a recommendation. But taken as a whole, our agenda will yield considerable savings to the public.

Whether workers prefer to remain longer in their jobs or to move into new jobs, changes in current practices will be required of employers, policymakers, and workers. We address recommendations to each. Our agenda offers recommendations in these areas:

1. Replacing stereotypes of older workers with measures of true value
2. Getting the financial incentives right
3. Recognizing the training imperative

4. Rethinking the organization of work to capitalize on the value of older workers
5. Getting older workers into new jobs
6. Creating a strong and flexible safety net

Finally, we recognize that few recommendations can or should be universally applied. There is great diversity in the needs and abilities of employers and workers. Policies that make sense for a Fortune 500 company may be impractical for a small business. Similarly, actions that are appropriate for a 55 year old may be inappropriate at age 70. Nonetheless, all employers and workers owe it to themselves to carefully consider the applicability of these recommendations to their own situations.

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## REPLACING STEREOTYPES WITH MEASURES OF TRUE VALUE: TOWARD AN END TO AGE DISCRIMINATION

Removing obstacles to work for older Americans depends in large part on a change in the assumptions made by employers. Many employers simply have seen no benefit to date in encouraging longer work lives. CED believes that if these employers are willing to abandon stereotypes in favor of honest assessments of their older workers, their appraisals may change.

Employers have legitimate concerns about the cost of older workers relative to younger ones. Nonetheless, they have an obligation — not only to their workers, but to themselves and their shareholders — to make an honest assessment of their productive value as well. CED believes that employers who do so often will discover, against popular wisdom, that:

- older workers are *not* a poor training investment in terms of retention or ability,
- older workers embody valuable human capital in the form of institutional knowledge and lifetime learning, and

- older workers can offer a high degree of flexibility in terms of employment arrangements.

Upper management indifference to the value of older workers, in contrast to close attention to their costs, is part of a continuum of discriminatory attitudes and actions. The sources of bias in the workplace are varied. It can derive from perceptions on the part of younger colleagues that older employees are overpaid. It also comes from the discomfort experienced by younger managers charged with supervising older employees. Older workers themselves share some of the blame. Some older employees do not take direction well from younger supervisors. Further, they may often assume an authority based on age and tenure that is not warranted.

The interests of the company are not served by an older employee who balks at taking direction from a younger supervisor, or by a supervisor who consistently overlooks older employees for work assignments or training opportunities. As difficult as these situations are to address, employers have an obligation to do so. This is more than a fairness issue for the older employee. Managers and other employees exhibiting age bias are allowing misplaced stereotypes to overrule sound business decisions.

With the work force aging, age-related conflicts will increase unless the attitudes of all parties change. Like other workplace diversity issues, age-related biases and problems will be addressed most successfully when they have the attention of top management, including the CEO and the corporate board. **We call on employers to motivate a change in attitudes through training sessions and workshops, following the model of race and gender-oriented initiatives.** Age-related sensitivity training is particularly important for managers throughout the organization who are in a position to influence office culture.

Finally, we believe that employers are not alone in undervaluing older workers. Labor unions also share the blame. Employers and unions have consistently agreed over the years on the desirability of moving older employees out of the work force and into retirement. If employers are to promote longer work lives through training opportunities and alternative work arrangements, labor unions need to be on board.

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## GETTING THE FINANCIAL INCENTIVES RIGHT

### Dealing with Pension Costs and Pension Incentives

Defined benefit pension plans make older workers more costly than younger ones due to the “backloading” of employer contributions to these plans. Often, more than half the value of an employee’s pension is accrued during the last 5 years of work. It is in the employer’s interest, then, to limit the number of these high contribution years. As noted above, defined *contribution* plans generally avoid such age bias by using fixed percentage contributions regardless of age or tenure. In terms of financial incentives, we believe the greatest lever for older workers will be the continued growth of defined contribution plans relative to traditional defined benefit plans, and we urge further expansion of these plans.

Defined benefit plans will not disappear any time soon, however, and dealing with the age bias they create should be a priority for many businesses as they experience tighter labor markets. Even as many firms face labor shortages due to the strong economy of the 1990s, they continue to encourage wholesale retirement of their older work force through pension incentives, only to reemploy the same workers in contingent work arrangements. There is a legitimate role for such flexible work arrangements, but pension-induced retirement undoubtedly introduces inefficiencies into the labor management process when used indis-

criminate. **As a means of retaining valued older employees, we encourage businesses to pursue actuarial neutrality in their pension plans, so that the lifetime value of benefits does not decline after the plan’s early or normal retirement ages.**

**CED does not, however, support legislative proposals to mandate age neutrality in private pension plans.** This heavy-handed approach would add yet another layer of government oversight to a highly regulated pension system, making the plans even more costly to administer. Different firms face different situations, and a neutrality mandate would interfere with legitimate negotiations between employers, employees, and their unions. In a dynamic economy, downsizing will always be present in some companies and industries. In some situations, early retirement incentives may be preferable to plant closings or other forms of mass lay-offs.

**In sum, we call on employers to consider pension neutrality as a means of retaining older employees. We believe that some early retirement incentive plans have been overused, and we urge employers to wield this blunt instrument carefully.**

### Changes to Social Security\*

A reorientation of pension incentives would not be complete without additional changes to Social Security. The nation’s public pension system has moved a long way toward achieving neutrality toward work. Its complicated benefits structure, required to achieve other objectives, makes true neutrality for all workers impossible. There are, however, a few key changes that would make the program largely consistent with the goal of extending work lives to reflect longer life expectancies.<sup>†</sup>

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\* CED has developed a comprehensive reform plan for Social Security, presented in our 1997 report *Fixing Social Security*. We believe comprehensive reform is absolutely critical to the long-term integrity of the program and that time is of the essence in implementing reforms. We have chosen here to focus on elements of reform that are central to the goal of extending work lives. CED’s plan is described in detail at [www.ced.org](http://www.ced.org).

<sup>†</sup>See memorandum by JOSH S. WESTON (page 56).

**CED believes that Congress should increase Social Security's normal and early retirement eligibility ages in order to reflect longer lifespans.** The normal retirement age (NRA) is now scheduled to increase an average of 1 month per year between 2003 and 2026 until it reaches 67. We believe this change is too modest, given the impending demographic shift. **CED believes the NRA should be increased by 2 months per year over the next 30 years until it reaches age 70, and thereafter should be indexed to mid-range projections of life expectancy.**

**Further, we believe that the program's early retirement age (ERA) should also be adjusted to preserve adequate benefit levels for early retirees. We propose increasing the ERA to 65 over a 30-year period, thereafter indexing the ERA to mid-range projections of life expectancy.\*** Absent any adjustment to the ERA, as the normal retirement age increases, early retirement benefits will fall to levels that we believe inadequate for future early retirees and their survivors.\*\* Rather than increase early retirement benefits, which would remove the program's appropriate neutrality and create new incentives to retire early, we believe it makes sense to adjust the earliest eligibility age to reflect longer life expectancies. We recognize that the ERA provides a safety net for those who feel they are no longer able to work. However, we believe that Social Security's Disability Insurance and Supplemental Security Income programs are the appropriate supports

for the relatively small number of early retirees who can no longer work.\*

**Finally, CED believes it is time to eliminate the Social Security earnings test altogether.** Congress has gradually raised the earnings limit in recent years. But higher limits do no more than mitigate the anti-work bias of this relic from the era of labor surpluses. Earnings limits amount to work limits and are not consistent with longer work lives.

### **Educating Employees about Retirement Security**

There is strong evidence that workers respond to the retirement incentives created by their pensions. Yet, they also reveal considerable ignorance about many of the financial aspects of retirement. Few workers, for example, know that Social Security's normal retirement age is gradually increasing from 65 to 67. Surveys of workers' saving habits and retirement expectations reveal a strong tendency to underestimate income needs in retirement, particularly as retirement has grown to span 20 or 30 years. Those approaching retirement have focused too much on financing their 60's, giving little thought to financial health in their 80's and even 90's. With a better understanding of income needs in retirement, more Americans are likely to want to work a few years longer before retiring.

**We believe employers can and should play an important role in educating their employees about financial planning for retirement by sponsoring financial education programs.** Employees who attend these programs participate in voluntary savings plans at higher rates and contribute more to the plans than other employees.<sup>125</sup> The evidence also suggests that these programs change savings behavior and are not

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\* CED estimates that recommended changes to the Normal and Early Retirement Ages would close a significant portion of the long-term Social Security deficit. Based on calculations for similar changes performed by the Social Security Administration, these changes would address at least half of the deficit and perhaps as much as 60 percent. Estimates cited in Henry Aaron and Robert Reischauer, *Countdown to Reform: The Great Social Security Debate*, (The Century Foundation: New York), 1998; Social Security Advisory Board, *Social Security: Why Action Should Be Taken Soon*, 1998; and CED, *Fixing Social Security*, 1997.

\*\*The age 62 Primary Insurance Amount (PIA) will fall from 80 percent of the Normal Retirement Age PIA to 70 percent. If the Normal Retirement Age were increased to age 70, the age 62 PIA would fall to 60 percent of the Normal Retirement Age PIA. *Private correspondence with Social Security Administration staff.*

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\* In the 1997 statement, *Fixing Social Security*, CED did not yet support an increase in the ERA, citing the potential burden it could impose on those unable to work past 62. However, we now believe this group is best served by these other programs. Today, we are convinced that a higher ERA is justified by the large number of individuals who take a reduced benefit at age 62 only to find they cannot support themselves with it later in life.

simply serving workers who are predisposed to save anyway; the gains are most striking for lower-wage employees. Also, seminars appear to be more effective than the distribution of reading material as a means of educating workers about financial planning.

In-house financial planning programs are much less feasible for small employers than for large companies. Nonetheless, investment firms and banks that provide retirement-related financial products are eager to conduct such programs in virtually any setting, including in businesses with only a handful of employees. We encourage small businesses to pursue such partnerships and we call on small business associations to inform and assist their members regarding this important issue. Seniors associations, community groups, and labor unions can reach segments of the older population that are not served through other venues. (See Box, "AARP and Financial Education".)

Finally, the federal government has an important role to play in educating workers about the role of Social Security in financing retirement. The lack of awareness of such a fundamental change as the increase in Social Security's normal retirement age suggests that government needs to improve its dissemination of information. Considerable resources have been devoted to educating the public about the need for Social Security reform over the past two years, but much less attention has been paid to explaining recent changes.

**The Social Security Administration should be provided with the resources to better educate the public, not only on impending changes in the program, but also on broader issues related to income maintenance and Social Security benefits.** In particular, people need to develop a better understanding of the adequacy of benefits for many years of retirement and the differences in benefits resulting from early, normal, and delayed retirement.

### A Pro-Work Change to Medicare

Like Social Security, Medicare is in need of major reform to maintain its financial integ-

### AARP AND FINANCIAL EDUCATION<sup>126</sup>

By virtue of its size, AARP plays a uniquely prominent role as an information resource for seniors. Financial planning is just one important area in which AARP serves as an educator and information clearinghouse to its 33 million members over the age of 50.

AARP is committed to providing quality information to insure that older workers make the best possible decisions regarding their financial futures. The organization has emphasized pension issues, savings and investment behavior, and income concerns of current and future retirees. AARP offers detailed advice on financial planning, offering helpful guidance for beginners and more experienced investors. This information is disseminated through membership publications, which reach all 33 million members. In addition, AARP provides detailed indices of financial planning resources, which are accessible via the Internet. The organization also conducts surveys of its members both to ensure that it is fully addressing their concerns and to draw on their collective experiences and knowledge about financing retirement.

ity. We do not address comprehensive Medicare reform here, except to say that the time to act is now for Medicare *and* Social Security reform. However, there is a sensible change to the program that would extend work lives. **Whatever happens with respect to comprehensive reform, we strongly recommend that Medicare's discrimination against older workers be reversed by returning the first-payer provision to its pre-1982 standard.\*** This discriminatory provision makes older workers much more costly and therefore less likely to

\* This change would increase Medicare expenditures by about \$3 billion annually. However, there would be some savings to the federal budget due to increased federal income tax revenue from higher work force participation rates. *The Green Book*, Committee on Ways and Means, U.S. House of Representatives, 1998, pp. 214-216.

be employed by any employers that provide health insurance to their employees. (See Chapter 2, “The Cost of Older Workers”.)

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## THE TRAINING IMPERATIVE

CED has long believed that skill attainment and skill maintenance are the key to productive engagement in the work force.\* This is no less true for older workers than it is for younger ones. The decline in training as workers age is not consistent with the goal of extending work lives. If older workers are to remain productively engaged in the work force, then they and their employers must work toward closing the training gap. **Older workers themselves have the primary responsibility to address their own skill needs. Employers who offer training should recognize the value of training their older workers and ensure equal access to training for them.**

### Recognizing the Value of Training Older Employees

For employers to be more amenable to training for their older employees, they should come to terms with some questionable assumptions.

#### **Assumption #1 – Training older workers is a lost investment.**

Employers often view training as a lost investment for workers nearing retirement. But evidence on tenure does not support this premise. Employers should consider the shelf life of training, which often can be as short as six months, in assessing the returns to their training investments in older employees. Finally, our other policy recommendations that would extend work lives, such as private pension and Social Security reform, would make older worker training an even better investment.

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\* CED has long supported *lifelong* learning as a means of increasing work force productivity and economic opportunity for workers. For a discussion of skill attainment at all ages, see CED’s policy statement, *American Workers and Economic Change*, 1996.

#### **Assumption #2 – Older workers cannot learn.**

Many employers still believe that you cannot teach an old dog new tricks. While there are no inherent cognitive limitations on the ability of older workers to learn, there *is* evidence that older workers learn differently than younger ones and that training should be structured to reflect these differences, as described below.

#### **Assumption #3 – Older workers are not motivated to seek training.**

In fact, many older workers *are* reluctant to seek training. Some are simply counting the days to retirement; but older workers’ negative attitudes toward training are often influenced by environmental factors. Career plateaus certainly contribute to this mindset. Some older employees say that management’s lack of confidence in their trainability in turn affects their motivation.<sup>127</sup> Others are reluctant to pursue training because they lack confidence in their ability to learn. CED believes that employers can foster an atmosphere that encourages training throughout the work life. Structuring training toward older trainees can increase the confidence of the worker and improve training outcomes.

### Ensuring Equal Access to Training

Not all employees will be eligible for all types of employer-provided training, but eligibility should be based on individual circumstances, not just on age. Age bias in practice does not necessarily involve *denying* training opportunities to older workers. It is typically far more subtle — discouraging an older worker from pursuing training, or suggesting that the training will be too hard, a waste of time, or too time consuming. We urge businesses to take a hard line against such discriminatory practices and ensure equal access to training for older employees.

### Structuring Training Effectively

Proper training for older workers can involve more than ensuring equal access to exist-



ing training opportunities. Research and experience indicate that, on average, mature adults learn differently than do their younger counterparts.<sup>128</sup> Training will be most effective for older workers if it recognizes some general characteristics of this group.\* We offer four basic guidelines:

1. *Pace.* Older adults take longer on average to complete training tasks and should be afforded the necessary time to complete the training. Employers should, however, keep the pace of older trainees in perspective. An extra day of training can yield benefits that will last far longer than the extra time spent in training. Further, pace may vary considerably among older trainees, with relatively young ones moving faster than older ones.
2. *Context and relevance.* Many older trainees learn more effectively by doing than by memorization and other methods traditionally associated with classroom learning. Training is most effective when the older trainee has a work context for what he or she is learning.<sup>129</sup> If older workers can see how the new material can be used to improve the job they are already doing or to allow them to do a new type of job, they will be more likely succeed.<sup>130</sup>
3. *Focus.* Training should build on skills that older workers already possess. Older workers have developed many skills informally over years of work. Training sessions should avoid a rehash of these skills, lest the older trainee become bored and decide that the training is a waste of time.
4. *Self-direction.* Self-directed learning, such as mastering a new software application

through a CD-ROM tutorial, has greater potential for success than classroom-type training. The classroom is far removed from the daily experience of older workers, who are less comfortable learning in this setting than young workers. Research also shows that older adults learn better when they have the opportunity to design and structure the learning experiences for themselves.<sup>131</sup>

### **The Worker's Responsibility: Seeking Training In and Out of the Workplace**

Older workers have the primary responsibility to update their own skills. Employers should ensure equal access and design training to be effective, but ultimately it is up to older workers themselves to pursue training. In the workplace, this means taking advantage of opportunities offered by the employer. Employees who ask for training are rarely turned down and are viewed more favorably by management because of their flexibility and acceptance of new technology.<sup>132</sup> When workplace training is self-directed, little stands in the way of the older worker but motivation.

For many older workers though, the need for training arises from a job transition. In these cases, training venues outside of the workplace are important. These include community colleges, universities, technical and proprietary schools, and distance learning programs. Displaced and disadvantaged workers have access to public training programs (including the Older Worker Training Program within the Job Training Partnership Act), which historically have been largely uncoordinated and largely ineffective. We are encouraged, however, by passage of the Workforce Investment Act of 1998. The Act consolidated the 100+ federally-sponsored training programs in an effort to improve program effectiveness. This consolidation places more responsibility for program delivery at the state and local levels and will depend critically on local business involvement for its success.

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\* Of course there are exceptions to these generalizations. For example, relatively young older workers (i.e., age 50) may be more similar to 35 or 40 year olds in terms of trainability than they are to 65 or 70 year olds. We do not intend a one-size-fits-all approach to training for older workers; rather, we offer these general characteristics and guidelines for trainers and workers to consider as they evaluate their own training needs.

Universities, colleges, and technical schools have the opportunity to tap into a large pool of enrollees if they are willing to expand course offerings and target them toward older learners. (See Box, “Higher Education for Older Adults”.) **CED urges higher education and other training institutions to recognize the need for work-oriented learning among older Americans and expand their curricular offerings and marketing to this largely untapped customer market.**

Colleges and technical schools that want to serve an older population should recognize their unique training needs. This begins with course schedules that serve the older student, including evening, early morning, and weekend classes.

**These institutions should also market themselves to older clients more effectively through**

**promotional mailings in their communities and recruiting partnerships with senior organizations.** The nation’s higher education system is very effective at marketing itself to high school graduates, with targeted mailings, college forums, and other forms of advertising. Marketing to seniors is far less common but could prove equally effective if colleges and universities pursue it.

**Educational institutions that want to serve older workers also need to structure curricula with the older worker in mind.** Many colleges and universities offer stimulating classes for retirees, but these offerings provide little in terms of work skills. Often, these classes simply mirror the liberal arts curriculum offered to undergraduates or emphasize hobbies such as pottery or photography. Work-oriented classes for older adults are far less common.

## HIGHER EDUCATION FOR OLDER ADULTS

Thousands of community colleges nationwide offer continuing education programs. Work-oriented educational programming for *older* adults is far less common. By attending classes at a local university, adult workers can complete their degree, get a different degree, or simply obtain the training they need to keep their skills up to date. A few examples:

**Westchester Community College** – Located in Valhalla, New York, Westchester has established its own retirement institute, called *Mainstream*. Mainstream brings innovative educational programming and career change options to mature adults. Courses are designed and operated specifically to meet the needs and skills older adults possess. Taught by WCC faculty, courses are offered for a nominal fee and are tailored in both content and length to meet different learning needs. Although all Mainstream courses are noncredit, Mainstream students are also linked with all WCC student services, so that they can audit or attend credit courses. Courses range in focus from estate planning to finding mature work options, with special emphasis on computers and technical training.<sup>133</sup>

**Eckerd College** – Located in St. Petersburg, Florida, Eckerd College offers an adult degree completion program, called the *Program for Experienced Learners* (PEL). Through PEL, workers may receive college credit for learning acquired in the workplace, or for any licenses they may hold (e.g. real estate, registered nurse, etc.). Workers then attend classes in accelerated eight-week terms, with five-hour classes held once a week. Courses are offered in the evenings and on weekends, and take place at several different sites. Eckerd also offers the opportunity for independent study, where a student and a faculty member create classes based on special interests or needs. Students involved in the independent study program need not attend classes on campus, which can be a particular advantage to those students whose job or home life does not afford them the time to attend a regularly scheduled course. Although PEL is not designed specifically for older workers, it is designed for experienced adults who want to build on the knowledge they have acquired in their work lives.<sup>134</sup>

Some colleges have sought to attract older students by waiving tuition requirements for older adults.<sup>135</sup> For example, Portland State University's Senior Adult Learning Center allows seniors to take classes on a "space available" basis without paying tuition.<sup>136</sup> In general, older Americans have the same access to the nation's public and private higher education funding programs as younger students and should take advantage of these opportunities.\*

### **Computers and the Older Worker**

Perhaps the biggest training gap for the current generation of older workers is in the area of computer skills. Training in and out of the workplace today is frequently focused on computer applications — learning the basics and updating skills as applications become more sophisticated. Computers can be difficult to master for older workers, who may be unfamiliar with even the most basic computer tasks. Older Americans are much less likely to use a computer at work or home than adults in general.<sup>137</sup> We believe that this is in part a generational problem that will become less severe as computer-savvy baby boomers age. But given the rapid pace of technological change, even the boomers are vulnerable to skill obsolescence if they do not continually update their knowledge of new applications.

Although older workers are most likely to acquire computer skills at work, there is also a growing market for computer training outside of the workplace. Computer-related companies and training organizations have stepped forward to meet this need. (See Box, "Expanding Access to Computer Learning"). Companies like Microsoft may be acting in self-interest by expanding the pool of potential software consumers, but they are also serving a societal interest by affording seniors an opportunity to increase their skills and employability.

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\* These include in-state tuition discounts, federally-subsidized student loans, and tax credits and deductions. Many employers also subsidize employee education in approved programs.

Computer-related training, like training in general, should be customized to the needs of older trainees. All of the general rules apply, but pace and relevance are particularly important for older workers encountering a technology that is completely new. Classroom computers should be set up to physically accommodate the older trainee. A notebook-size laptop may be fine for an 18 year old but it may not suit the needs of a 60 year old. Monitors and screen displays should be large enough and the keyboard and mouse should accommodate a limited range of motion.

Finally, the value of age-segregated classrooms may be greatest in computer-related training.<sup>138</sup> Younger trainees generally possess more background knowledge that can aid in learning new applications, while older trainees are more likely to be starting from scratch. Mixing the two is likely to frustrate the younger trainees, who must move at a slower pace, and intimidate the older ones, who may feel overwhelmed.

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## **RETHINKING THE ORGANIZATION OF WORK**

### **Avoiding Career Plateaus**

The organization of work is important to the work-retirement decisions of workers and employers. Workers in career jobs often reach a plateau long before retirement. Promotions are no longer likely and work assignments settle into a familiar routine. For workers who reach such a plateau at 40, retirement at 55 can seem long overdue rather than "early."

Plateaus also make older workers vulnerable to job loss. As one business magazine's recent cover story put it, the career plateau has become "a narrow ledge" for some.<sup>139</sup> The same competitive environment that has forced the major industry restructuring and downsizing of the 1980s and 1990s also requires employers to work harder to match costs to productivity. Job plateaus do little to promote productivity

## EXPANDING ACCESS TO COMPUTER LEARNING

Opportunities for older Americans to learn computer skills are rising swiftly. Already, more than 85 percent of the nation's libraries provide public Internet access, and many senior-focused computer learning centers have opened up in the last two years. A few examples follow:

**Microsoft** – The Microsoft Senior Initiative intends to increase access and provide computer and Internet literacy training to over 250,000 seniors by the year 2000.<sup>140</sup> The initiative promotes PC literacy among seniors by investing in key outlets and organizations. So far, Microsoft has teamed with the National Council on Aging, the American Association of Community Colleges, the American Society of Aging, as well as other businesses. The company also hopes to serve as an information clearing-house for senior learners and has developed its own senior website, listing resources and community-based training programs nationwide.

**SeniorNet** – SeniorNet is a nonprofit organization of computer-using older adults.<sup>141</sup> SeniorNet's mission is to provide older adults access to computer technology to enhance their lives and enable them to share their knowledge and wisdom. The organization has over 27,000 members, with 140 learning centers throughout the United States. SeniorNet also holds national and regional conferences, and operates SeniorNet Online, which all seniors are encouraged to use. The on-line service has been recognized by the International Academy of Digital Arts and Sciences for its innovation in serving the on-line community. SeniorNet's learning centers offer computer classes specifically designed for older adults, and classes are managed primarily by senior volunteers. Learning centers are conveniently located in senior centers, community centers, and hospitals, thus providing easy access to seniors who need computer training.

**Computer U** – Computer U is an Indian Wells, California company that sets up franchised computer training centers for mature adults.<sup>142</sup> The franchisee benefits from state-of-the-art training and by using programs, methods, and teaching materials developed especially for mature adults. The older learner benefits by taking classes from individuals specifically trained to teach them. Computer U has developed significant customer loyalty, with each customer taking an average of five classes from the company.<sup>143</sup>

during a worker's peak earning years, and employers are discovering the mismatch. It remains to be seen how they will choose to deal with it. They can follow the old way, which is to continue to unload older employees in favor of younger, cheaper workers. Or they can recognize the potential of their older, long-tenure employees and restructure the job environment to increase the productivity of this group. As much as the former seems to be the preference of today's employers, it is likely to prove unsustainable in the face of a shrinking supply of younger labor.

Workers can avoid career plateaus by updating their skills, but they must also have an

opportunity to put those skills to use. **CED urges businesses to explore innovative ways to reorganize work for long-tenure employees in order to avoid career plateaus.** One option is to encourage opportunities for new work assignments. These need not be promotions, but can simply be a change of routine and responsibilities for the aging worker. Employers should consider allowing mid- and late-career employees to pursue very different jobs within the company, which may require substantial retraining. The benefit to employers comes from the institutional knowledge that the employee retains, even in the new position, as well as the loyalty that older employees typically possess.

## Phased Retirement Programs: Putting an Idea into Practice

**CED believes that phased retirement is a promising, but vastly under-utilized, model for extending work lives.** For employers, phased retirement programs offer a means of retaining valued employees while eliminating some of the costs associated with these employees. For employees, phased retirement may be particularly attractive. Many older workers are not yet ready for full retirement, nor are they eager to keep working long hours. They can look for a new job, but a difficult job market for older

workers can make this a daunting prospect. Phased retirement can be an appealing alternative. Unfortunately, with very few exceptions (See Box, “Phased Retirement in Practice”), phased retirement programs to date have received virtually no attention from employers.

While there is no single best model for phased retirement, we offer here conditions necessary for greater use of phased retirement programs in general.

1. *Employer motivation.* Phased retirement requires employers who recognize the value of retaining their long-tenure workers at

### PHASED RETIREMENT IN PRACTICE

There are few examples of phased retirement programs in corporate America. Even when the programs are successfully implemented, they are vulnerable to corporate restructuring and downsizing. Polaroid, for example, terminated its “rehearsal retirement” program after recent reorganization within the company forced job cutbacks. The Polaroid case illustrates the importance of flexibility in determining work force needs. Phased retirement will not meet the needs of all employers at all times. Such programs will be most enduring in an environment of expanding labor needs. Following are three examples of phased retirement in practice.

**Varian Medical Systems, Inc.** – A leading manufacturer of integrated cancer therapy systems, Varian developed a phased retirement program in response to employee requests for reduced work schedules in preparation for retirement.<sup>144</sup> The program is open to employees 55 or over with a minimum of five years of service who plan to retire within three years. Typically, the work week is reduced to four days during the first year, and three days during the second year. It is possible to return to work full-time if the reduced work schedule results in economic hardship. Participants retain full medical and dental benefits, while other benefits, such as disability and life insurance, are pro-rated.

**The Aerospace Corporation** – The Aerospace Corporation has developed the Retirement Transition Program, which consists of four components: pre-retirement leave of absence, part-time status in preparation for retirement, post-retirement employment on a casual basis and post-retirement employment on a consulting basis.<sup>145</sup> Post-retirement casual employment is by far the most popular option. As needed, Aerospace hires its retirees as “casual” employees who can work up to 999 hours per year and still maintain full pension benefits.

**Polaroid** – The Polaroid Corporation offered several programs to prospective retirees to help them make informed decisions about retirement.<sup>146</sup> Two of the more common programs were “rehearsal retirement” and tapering-off schedules. Rehearsal retirement allowed potential retirees to try out retirement by taking an unpaid leave of absence of up to six months. The employee was eligible to return to work after the leave, and approximately 50 percent of participants exercised that option. Tapering-off schedules were designed to allow a gradual transition to retirement. The employee’s number of work hours per day, days per week, or weeks per month were reduced for as long as three to five years. Employees who elected a tapering-off schedule were paid for the hours they worked, and they continued to receive full medical insurance and prorated pension credits.

reduced hours and responsibilities. This means rethinking job structure and defining new roles for a new type of employee with a great deal of institutional knowledge and expertise but reduced time commitments and responsibilities.

2. *Pension issues.* Implementing phased retirement may require changes to a company's pension rules in order to avoid penalizing workers who choose this path. If employer pension contributions are tied to earnings, employees will be very reluctant to take phased retirement. Furthermore, employers are permitted under ERISA to reduce monthly pension benefits for beneficiaries who continue to work in the firm more than 40 hours per month. Employers who want to encourage phased retirement should look for ways to avoid these penalties. For example, employers could allow employees to draw full pension benefits, if they meet the age and service requirements, while they continue to work in a phased retirement arrangement. They could also re-visit pension accumulation formulas so that pension value is not negatively affected by reduced hours and earnings at the end of one's career. Importantly, employers are likely to need more flexibility under the law to make their pension plans consistent with phased retirement and policymakers should be responsive to these needs.
3. *Worker motivation.* Phased retirement requires a change in mindset on the part of older workers. As many long-tenure employees approach retirement age, they are at the peak of their professional responsibilities, earnings, and status within the organization. They might welcome a reduction in hours and responsibilities, but would view phased retirement as a demotion. As a result, many choose to retire altogether or to pursue part-time employment elsewhere. They often abandon a work environment that they enjoy in favor of less rewarding alternatives because they are reluctant to

give up the status attached to their current job. Workers should consider these trade-offs carefully as they make choices about their transition to retirement. Many older workers would benefit from the opportunity to keep working in an environment they like, but with few of the stresses that come with high levels of responsibility.

### **Bringing Back Retired Workers**

A small number of companies offer something like phased retirement by rehiring their retired employees. (See Box page 46, "Rehiring Retirees".) CED eagerly endorses these practices and urges other employers to consider similar strategies. The problems with this approach, compared with phasing down one's workload before retiring from a career job, include the larger costs associated with retiring and then rehiring, and greater instability for the worker.

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## **GETTING OLDER WORKERS INTO NEW JOBS**

Many older workers would like to work longer, but not in their current job or with their current employer. Others have little choice in the matter, finding themselves in the job market involuntarily or because of inadequate opportunities at their previous job. Unfortunately, today's job market does not adequately serve the needs of older job seekers or their prospective employers.

### **Effective Recruiting and Job Placement**

In a recent study, 61 percent of employers surveyed reported difficulty in finding older job candidates.<sup>147</sup> Yet, older workers themselves often have a very hard time in the job market. Clearly, there is something wrong when older workers can't find jobs, and employers can't find older workers.

Employers are often looking in the wrong places, or sending the wrong message in job announcements. Small and inexpensive

## REHIRING RETIREES

Aetna Life and Casualty, the Prudential, the Government Employees Insurance Company (GEICO), and the Travelers Companies are a few of the employers that have begun to realize that their own retirees are a valuable resource.<sup>148</sup> These companies have re-employed their own retirees, either informally or through established programs. Not only do retirees have the critical skills and work ethic that employers value, they also come armed with first hand knowledge of the company, something that can only be gained through experience. GTE and GE Information Systems offer two approaches to rehiring retirees.

**GTE** – The GTE Corp. recently began using company retirees for joint venture assignments that required extended (up to six months) stays overseas.<sup>149</sup> Finding that their domestic employees were often too busy to take on such assignments, GTE turned to retirees who had the technical expertise needed to complete the telecommunications projects. Sandra Roach, GTE's vice president for international human resources, found that retirees had the energy, enthusiasm, time, and expertise needed to get the job done right. The idea was appealing to retirees who wanted to travel, while contributing to the company at the same time. Workers earned hourly rates based on the nature of their work, plus a project-completion bonus. The approach was such a success that GTE plans to use it more frequently in the future. A recent company survey uncovered another 725 retired employees who were willing to travel abroad for similar assignments.

**GE Information Services** – In 1989, GE Information Services (GEIS), a wholly-owned subsidiary of the General Electric Company, introduced Golden Opportunity, a program designed to utilize the skills of GE retirees.<sup>150</sup> Golden Opportunity allows retirees to work up to 1,000 hours per year on a contractual basis, while still receiving full pensions and benefits. Retirees who return to work are paid an hourly wage based on their previous salary. Managers see this program as a wonderful opportunity to tap into a pool of highly developed skills, while retirees are glad to use their abilities to supplement their pensions. Since its inception, an estimated 50 percent of retirees have returned to the work force in some form, and many retirees who participated in 1989 are still active in the program today. The Golden Opportunity program has served as a model for other GE divisions who have introduced similar programs.

changes in the recruitment process can make the difference:

- depicting an older person in promotional material;
- emphasizing that job openings are for “all ages” in postings;
- relying on word-of-mouth, which can be effective in attracting older candidates;
- working with senior organizations (including community centers and church-based programs) to advertise positions.

These sensible and simple techniques are far from common practice in today's job market.

Older job candidates need to be more aggressive in going where the jobs are. Increasingly this means relying on technology. Internet-based job searches are now commonplace, making computer skills essential not only to *do* many jobs, but also to *find* them. Public Internet access has expanded tremendously in recent years, thanks to public and private efforts. Seniors must take the next step and acquire the skills to use this technology.

CED believes that an expanded network of placement services can help older workers and employers make the job link. Private, nonprofit, and governmental services meet the needs of a wide array of workers and employers by placing professional and less-skilled workers in per-

manent and contingent jobs. Large “supplemental staffing” firms like Olsten Staffing Services and Manpower Inc. eagerly recruit older workers to join their ranks, recognizing the match between employers’ need for a flexible, contingent job pool and many older workers’ interest in short-term or part-time work. (See Box, “Placement Agencies Turn to Seniors”.) Other organizations like Green Thumb and the National Older Worker Career Center specialize in the older work force. So far, such specialized services have largely been the do-

main of non-profit and governmental initiatives. We are encouraged, however, to see some emerging private ventures in this area, which we believe points to a shift in the private sector’s thinking about the value of older workers.

### **Encouraging Flexible Work for the Post-Retirement Worker**

An important strength of many older workers is their willingness, even eagerness, to work in flexible and contingent arrangements after they have formally retired from long-tenure

#### **PLACEMENT AGENCIES TURN TO SENIORS**

Due to the lowest unemployment rate in 25 years, placement agencies have recently been faced with a shrinking pool of reliable, skilled employees, while business demands for good labor are constantly on the rise. In an attempt to resolve this dilemma, some placement agencies have begun to recruit older workers to fill the void.

**Manpower Inc.** – Manpower Inc. points out that more than one-quarter of its 1.6 million strong global work force consists of older workers.<sup>151</sup> And the company would be happy to see this share grow. Manpower actively recruits seniors to its ranks, citing distinct advantages in terms of conscientiousness and maturity. Importantly, Manpower’s self-paced training program has proved to be a good fit for older workers, who have thrived in a training environment in which they can learn at their own rate. For these seniors, Manpower is not just a temporary job service but also the source of valuable training.

**Olsten Staffing Services** – In 1993, Olsten implemented the Mature Advantage Program, a recruiting program aimed specifically at retirees.<sup>152</sup> Today, 15 percent of its base of temporary employees consists of seniors over the age of 55. Many retailers now specifically request that Olsten find seniors to fill sales associate openings. With other clients, Olsten works aggressively to make sure they understand both the value and the strong work ethic seniors bring to the job. Olsten senior vice president of marketing Gordon Bingham views older workers as a critical source of employees going into the future, and as one of the key solutions to the continued progress of variable staffing.

**National Older Worker Career Center (NOWCC)** – A nonprofit organization, NOWCC was created to fill a leadership vacuum on national workplace issues. NOWCC expands work opportunities for individuals age 40 and over through training, job placement, education, research, and advocacy. NOWCC champions a wide array of flexible work options, such as job sharing, phased retirement and mid-career sabbaticals.<sup>153</sup> Currently, the NOWCC operates the Senior Environmental Employment (SEE) Program for the U.S. Environmental Protection Agency. The program matches individuals over the age of 55 with temporary assignments that provide technical assistance to federal, state and local environmental agencies in the abatement and control of environmental pollution. The SEE Program serves 700 participants in 36 locations from NOWCC field offices in Washington, DC, San Francisco, Denver, and Dallas. Participants work in full-time and part-time support assignments that range from clerical to engineering. The average age of these workers is 65 and a total of 166 are in their 70s and 80s. Thanks in large part to the success of the SEE program, the NOWCC is expanding its reach to include other public and private organizations.



employment. These workers no longer think in terms of careers, long hours, or promotions. They are much more amenable to part-time work and short-term assignments and are less concerned about fringe benefits and pay.

Unfortunately, the “flexible” older worker is often constrained by rigid public policies. Current law generally requires employers to award the same benefits to broad classes of employees, many of them in very different work arrangements. But these benefits can cost a great deal more for an older worker. As a result, employers that offer extensive benefit packages are less likely to hire older workers.

Currently, employers may avoid hiring older workers for jobs that require more than 1,000 hours of work per year due to the benefit requirements for that work. Rather than this “all or nothing” approach, we believe all parties would be better served by a sliding scale of benefits that reflect differences in hours worked. **CED believes that ERISA should be amended to allow employers greater flexibility to pro-rate fringe benefits to reflect different work arrangements. In line with this, employers should consider greater use of flexible benefit plans as an alternative to traditional benefits packages.** Under flexible or “cafeteria” plans, benefits can be tailored to meet the needs of individual employees in a manner that contains costs for the employer.<sup>154</sup> For the older employee, this may mean a benefits package that consists primarily of health coverage with no child care assistance. For employers, flexible plans offer a way to equalize benefit costs across age groups, making older workers more attractive to retain or hire.

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## **CREATING A STRONG AND FLEXIBLE SAFETY NET**

The onset of a work-limiting disability can plunge an older worker into difficult financial circumstances. An effective strategy to extend work lives cannot overlook the most vulnerable

in the aging population. We believe, however, that it is time to think differently about disability. Programs like Social Security Disability Insurance continue to provide a critical safety net.\* But the net should be flexible. Public policies have focused almost exclusively on income support and have done little to promote productive lives among the disabled. The nature and severity of disabilities varies among older Americans — many are, in fact, willing and able to work. Policymakers should give high priority to enabling more disabled older Americans to work. Employers also can play a role.

### **The Need for a Viable Public Disability Program**

Our current Disability Insurance program all but prohibits work for beneficiaries. Equally important, eligibility determination for the DI program is cumbersome and does not adequately serve the needs of the disabled. We are encouraged by the U.S. Senate’s recent passage of the Work Incentive Improvement Act, which is largely consistent with the reforms we offer here. We urge the House of Representatives to consider this legislation.

In general, CED believes that the DI program should be reformed to:

- provide appropriate incentives and assistance to participants who are able and willing to work in some capacity; and
- efficiently target those who meet eligibility criteria.

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\* Of course, Disability Insurance is not the only element of the public “safety net,” just as the onset of a disability is not the only cause of economic vulnerability. Unemployment Insurance, Supplemental Security Income, and Medicaid are all important public programs that provide income support and medical coverage for those in need as a result of job loss or very low incomes. We focus here on Disability Insurance because it is particularly relevant to the older worker population and because our recommendations for reform illustrate how a public program can be “pro-work” while also serving as an effective safety net. We encourage the reader to see CED’s forthcoming statement on the Low-Wage Labor Market for a broader discussion of issues and policies related to the low-income population.

We propose four elements of reform to meet these objectives.

**First, the program must offer stronger financial incentives to work.** Currently, DI recipients are able to work briefly after entering the program, but face extremely high penalties on work after this period ends. **To remove these penalties, we propose a tax credit to supplement the Earned Income Tax Credit (EITC) for DI recipients.** As earnings increase, the combined credits would decrease. The work incentive created by the combined credits would remove disabled workers from the DI roles, since their earnings levels will exceed the “substantial gainful activity” level (currently \$500 a month). Alternatively, the program could phase down benefits gradually as earnings from work rise, in contrast to the current abrupt cut-off imposed by the substantial gainful activity definition. Reforms, whether through tax credits or changes to the earnings limit, are badly needed to remove work disincentives that can exceed 100 percent of earnings.

**Second, we propose extending access to health insurance to those who leave the DI roles for work.** Access to Medicare is critical for many disabled persons who remain on the roles because they cannot afford necessary medical care. **DI recipients who choose to leave the roles for work should be permitted to retain Medicare coverage, paying premium amounts that are adjusted to earnings.** At higher earnings levels, premium subsidies would phase out altogether and the former DI recipient would have an option to pay full premiums or discontinue Medicare coverage.

**Third, we believe vocational training and work-oriented rehabilitation are needed to bring many DI recipients back into the workplace. However, rather than continue to rely on ineffective state-run programs, we propose a voucher system, much like the Pell Grant.** DI recipients could use the voucher to engage in approved activities ranging from traditional

rehabilitation to skill training in community colleges.

Finally, identifying the disabled is an ongoing problem for the DI program. To safeguard against poor decisions or program abuse, DI has a multi-layered disability claims process. Unfortunately, these various checks and reviews have made the process overly cumbersome while continuing to yield questionable outcomes, often denying initial claims that later prove valid. **Greater effectiveness and efficiency in the DI intake process is a crucial part of CED’s older workers agenda. Higher eligibility ages for Social Security will likely put greater demands on the DI system. It must perform more effectively.**

The complicated nature of the process and of necessary reforms preclude detailed recommendations here. Fortunately, DI administrators are not lacking for good advice. We urge expeditious adoption of process reforms consistent with the Social Security Administration’s own plan and recommendations from agencies like the General Accounting Office.<sup>155</sup>

### **The Employer’s Role in Accommodating Disability in the Workplace**

As we noted in the last chapter, employers, spurred in part by legal requirements under the Americans with Disabilities Act, have demonstrated a willingness to accommodate disabilities in the workplace. While disability often brings to mind wheelchairs, old-age related disabilities are far more likely to involve problems with hearing or eyesight that, while not visible to others, can create obstacles to work. Employers should recognize that accommodating such problems often can be a relatively modest task, such as adjusting font sizes on computer monitors or facilitating an employee’s need to take medications while at work. A recent survey of human resource managers, for example, indicates that 85 percent of employers find disability accommodation either “easy” or “very easy” in areas such as

recruitment, pre-employment screening, and employee orientation.<sup>156</sup>

Employers can also rely more on flexible work arrangements, such as work-at-home programs, to accommodate certain disabilities. Conditions like arthritis vary in intensity over time. Employers will find it most productive to work with the disabled worker to allow for periods when the illness prevents the worker from coming in to work, rather than treat each of these periods as an unanticipated interruption in work.

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## CONCLUSION

The prosperity of the post-WWII era legitimized the notion of retirement for its own sake — we work hard from early adulthood until age 62 (or 65 at the latest), the argument goes, and then we rest. CED challenges this notion, not to backtrack on the promise of retirement, but to expand opportunities for older Americans. For every 62 year old who jumps eagerly into retirement, another may be less eager but sees few work alternatives available. We have argued here that this is an inefficient and ultimately unsustainable path. Wealth in our society has made retirement a possibility, but it should not be the only possibility. We urge businesses, policymakers, and workers to replace the culture of retirement with one of productive aging — a change that is, for each group, a matter of self-interest as much as it is in the national interest.

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# Memoranda of Comment, Reservation, or Dissent

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Report as a whole, CHARLES R. LEE

Although the proposed CED Policy Statement on Older Workers effectively summarizes many of the potential issues we may be faced with, as well as actions that have been taken to date, I do not support the issuance of a policy statement at this time. Supporting legislation is already in existence for a diverse work environment, which is inclusive of older workers. Practicing and adhering to this existing legislation is good business. It represents table stakes that allow us to play and win in a market-driven competitive environment. A tight labor market and potential skill shortages will require successful companies to employ older workers.

More legislation can become costly and stymie the many creative solutions that the private sector will employ. These often represent win-win solutions for the employer and employee. This is evidenced by the many examples provided in this report that are being driven by market forces, including the GTE example on retiree utilization.

To compete in the marketplace, the private sector will be forced to modify existing policies and develop new and innovative solutions that effectively utilize the entire labor pool profile, while also adjusting to the changing demographics of the marketplace. Changes will continue to be made in the areas of pensions, benefits, work schedules, environment and compensation practices to ensure the required labor force is acquired and/or retained.

In summary, while I endorse many of the suggested employer actions outlined in this proposal, I cannot support additional legislation that will increase employer costs and restrict creative labor market solutions that are driven by competition.

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Page 36, JOSH S. WESTON, with which PETER A. BENOLIEL, FLETCHER L. BYROM, JOHN DIEBOLD, BRUCE K. MACLAURY, and ALONZO L. MCDONALD have asked to be associated

I believe CED's recommendations to "level the playing field" for older workers should be accompanied by a very visible incentive that would "kick start" a program for retaining and employing older workers. I propose that new legislation relieve employers of their Social Security tax (currently 6.18% of wages) on employees older than Social Security's normal retirement age. I would also consider giving such employees the *option* to be exempt from their own Social Security tax (currently 6.18%) if they exclude those untaxed earnings from their annuity calculations.

This proposal, which would create strong incentives for the employment of older workers, would have relatively modest initial annual costs, and these costs would gradually diminish as the normal retirement age increases on the current schedule. In addition, the additional income tax revenues from the induced increase in older employees would probably offset most of the forfeited Social Security tax. Finally, since the Federal budget is based on cash accounting, each newly deferred retirement attributable to the above inducements would increase the near-term net cash flow to the government by the amount of each deferred monthly annuity payment.

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## OBJECTIVES OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT

For more than 50 years, the Committee for Economic Development has been a respected influence on the formation of business and public policy. CED is devoted to these two objectives:

*To develop, through objective research and informed discussion, findings and recommendations for private and public policy that will contribute to preserving and strengthening our free society, achieving steady economic growth at high employment and reasonably stable prices, increasing productivity and living standards, providing greater and more equal opportunity for every citizen, and improving the quality of life for all.*

*To bring about increasing understanding by present and future leaders in business, government, and education, and among concerned citizens, of the importance of these objectives and the ways in which they can be achieved.*

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Battling America's Budget Deficits (1989)  
\*Strengthening U.S.-Japan Economic Relations (1989)  
Who Should Be Liable? A Guide to Policy for Dealing with Risk (1989)

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\*Statements issued in association with CED counterpart organizations in foreign countries.

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## CED COUNTERPART ORGANIZATIONS

Close relations exist between the Committee for Economic Development and independent, nonpolitical research organizations in other countries. Such counterpart groups are composed of business executives and scholars and have objectives similar to those of CED, which they pursue by similarly objective methods. CED cooperates with these organizations on research and study projects of common interest to the various countries concerned. This program has resulted in a number of joint policy statements involving such international matters as energy, East-West trade, assistance to developing countries, and the reduction of nontariff barriers to trade.

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<b>CE</b>	Circulo de Empresarios Madrid, Spain
<b>CEDA</b>	Committee for Economic Development of Australia Sydney, Australia
<b>EVA</b>	Centre for Finnish Business and Policy Studies Helsinki, Finland
<b>FAE</b>	Forum de Administradores de Empresas Lisbon, Portugal
<b>FDE</b>	Belgian Enterprise Foundation Brussels, Belgium
<b>IDEP</b>	Institut de l'Entreprise Paris, France
<b>IW</b>	Institut der Deutschen Wirtschaft Cologne, Germany
経済同友会	Keizai Doyukai Tokyo, Japan
<b>SMO</b>	Stichting Maatschappij en Onderneming The Netherlands
<b>SNS</b>	Studieförbundet Naringsliv och Samhälle Stockholm, Sweden